

Audit Report

Detroit-Wayne County
Community Mental Health Agency

October 1, 1998 – September 30, 2000



Office of Audit
Central Regional Office
December 2006



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF COMMUNITY HEALTH
OFFICE OF AUDIT
400 S. PINE; LANSING, MI 48933

JANET OLSZEWSKI
DIRECTOR

December 5, 2006

Mr. Bernard Kilpatrick, Board Chairperson
Detroit-Wayne County Community Mental Health Agency
640 Temple, 8th Floor
Detroit, Michigan 48201

and

Mr. Richard Visingardi, Transitional Executive Director
Detroit-Wayne County Community Mental Health Agency
640 Temple, 8th Floor
Detroit, Michigan 48201

and

Ms. Janet Olszewski, Director
Department of Community Health
Capitol View Building – 7th Floor
201 Townsend Street
Lansing, Michigan 48913

CERTIFIED MAIL

7002 2410 0001 1162 0764

Dear Mr. Kilpatrick, Mr. Visingardi, and Ms. Olszewski:

This is the final report from the Michigan Department of Community Health (MDCH) audit of the Detroit-Wayne County Community Mental Health Agency for the period October 1, 1998 through September 30, 2000.

The final report contains the following: description of agency; funding methodology; purpose; objectives; scope and methodology; conclusions, findings and recommendations; financial status report; explanation of audit adjustments; contract reconciliation and cash settlement summary; and corrective action plans. The conclusions, findings, and recommendations are organized by audit objective. The corrective action plan includes the agency's paraphrased response to the Preliminary Analysis and the Office of Audit's response to those comments where necessary.

If the agency disagrees with the MDCH audit findings, the agency may use the dispute resolution process as specified in Section 3.16 of the Managed Specialty Supports and Services Contract (MSSSC), and/or the Medicaid Provider Reviews and Hearings. Both administrative remedies are described below.

If the agency chooses to engage Section 3.16 of the MSSSC (dispute resolution process), the agency must provide written notification to the MDCH of their intent within 30 days of receipt of this notice. The written notification must include the nature of, and any proposed resolution to, the dispute; and copies of all relevant documentation. The final decision authority regarding disputes arising out of MDCH financial reviews and/or audits has been delegated to the MDCH Administrative Tribunal.

If the agency chooses to use the Medicaid Provider Reviews and Hearings, the agency must request a conference or hearing within 30 days of receipt of this notice. The adjustments presented in this final report are an adverse action as defined by MAC R 400.3401. If the agency disagrees with this adverse action, the agency has a right to request a preliminary conference, bureau conference or an administrative hearing pursuant to MCL 400.1 et seq. and MAC R 400.3401, et seq. The request should identify the specific audit adjustment(s) under dispute, explain the reason(s) for the disagreement, and state the dollar amount(s) involved, if any. The agency should also include any substantive documentary evidence to support their position. Requests must specifically identify whether the agency is seeking a preliminary conference, a bureau conference or an administrative hearing. If the agency does not appeal this adverse action within 30 days of receipt of this notice, this letter will constitute MDCH's Final Determination Notice according to MAC R 400.3405.

If the agency chooses to request a dispute resolution process; and/or a preliminary conference, bureau conference, or administrative hearing, the request(s) must be sent within 30 days of receipt of this letter to:

Administrative Tribunal & Appeals Division
Michigan Department of Community Health
1033 S. Washington
P.O. Box 30763
Lansing, Michigan 48909

If MDCH does not receive a request for a preliminary conference, bureau conference, administrative hearing, or dispute resolution process within 30 days of receipt of this notice, MDCH will implement the adjustments as outlined in this final report.

Also, as a result of our audit findings and adjustments, the agency's Medicaid Savings and General Fund Carryforward changed for the audited fiscal years. As noted on page 36 of the audit report, this requires that the agency amend subsequent year FSRs to properly account for \$7,822,964 in General Fund Carryforward from FYE 9/30/2000, and the agency submit a Medicaid Savings Reinvestment Plan to spend \$27,194,942 on Medicaid services. Since the additional Medicaid Savings was created as a result of disallowed expenditures, the Medicaid funds have already actually been spent. Consequently, the agency will have to use local funds to

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provide \$27,194,942 in Medicaid services. If the agency does not submit the Medicaid Savings Reinvestment Plan as required and spend local funds to provide the services according to the approved plan, and/or the agency does not amend subsequent year FSRs to properly account for the General Fund Carryforward, we will require a return of these funds to MDCH.

Thank you for the cooperation extended throughout this audit process.

Sincerely,

A handwritten signature in black ink, reading "James B. Hennessey". The signature is written in a cursive, flowing style with a large initial "J" and a long, sweeping underline.

James B. Hennessey, Director
Office of Audit
Internal Auditor

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DESCRIPTION OF AGENCY

The Detroit-Wayne County Community Mental Health Agency (DWCCMHA), established in 1964, operates under the provisions of Act 258 of 1974, the Mental Health Code, Sections 330.1001 – 330.2106 of the Michigan Compiled Laws. DWCCMHA is an official county agency of Wayne County and subject to oversight by the Michigan Department of Community Health (MDCH).

DWCCMHA has an administrative staff and office but contracts with community agencies, clinics, and hospitals to provide outpatient, partial day, residential, case management, prevention and Omnibus Budget Reconciliation Act (OBRA) services to residents within Wayne County.

DWCCMHA's administrative office is located in the city of Detroit. DWCCMHA's board consists of 12 members appointed for three-year terms. Six members are appointed by Wayne County's chief executive officer and six are appointed by the City of Detroit's chief executive officer. The board members reside in Wayne County.

FUNDING METHODOLOGY

DWCCMHA contracted with MDCH under a Managed Specialty Supports and Services Contract (MSSSC) for FY 1998–1999 and FY 1999-2000. For the twelve-month periods ended September 30, 1999 and September 30, 2000, DWCCMHA reported expenditures of \$555.5 million and \$598.8 million, respectively. MDCH provided the funding under these contracts to DWCCMHA with both the state and federal share of Medicaid funds as a capitated payment based on a Per Eligible Per Month (PEPM) methodology. An attachment to each contract includes the specific rates paid on the PEPM basis. MDCH also distributed the non-Medicaid full-year State Mental Health General Funds (GF) based on separate formulas included as attachments to the contracts.

Other funding received separately outside of the MSSSC included special and/or designated funds, fee for services funds, and MI Child capitated funds. MDCH provided the special and/or designated funds under special contractual arrangements with DWCCMHA. Each agreement specifies the funding methodologies for these arrangements. MI Child is a non-Medicaid program designed to provide certain medical and mental health services for uninsured children of Michigan working families. MDCH also provided the funding for this program by capitated payments based on a Per Enrolled Child Per Month methodology for covered services.

PURPOSE AND OBJECTIVES

The purpose of this review was to determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and whether the agency properly reported revenues and expenditures in accordance with generally accepted accounting principles and contractual requirements; and to assess the agency's performance relative to the requirements and best practice guidelines set forth in the contract. Following are the specific objectives:

1. To assess DWCCMHA's effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSSSC requirements and best practices guidelines.
2. To assess DWCCMHA's effectiveness and efficiency in reporting their financial activity to MDCH in accordance with the MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.
3. To determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and any balance due to or due from DWCCMHA.

SCOPE AND METHODOLOGY

We examined DWCCMHA's records and activities for the period October 1, 1998 through September 30, 2000. We completed an internal control questionnaire to review internal controls relating to accounting for revenues and expenditures, procurement and other contracting procedures, reporting, claims management, and risk financing. We interviewed DWCCMHA's finance director and chief operating officer. We reviewed DWCCMHA's policies and procedures. We examined contracts for compliance with guidelines, rules, and regulations. This included the review of community hospital contracts, substance abuse agreements and other grant agreements for settlement of the funding advanced with the authorized and approved billings. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the financial status reports (FSR) in compliance with the MSSSC reporting requirements and applicable accounting standards.

We examined the records and activities of 12 community agencies¹ that had net cost contracts with DWCCMHA for the period October 1, 1998 through September 30, 2000. In the fiscal year ended 9/30/1999 their reported costs were \$268 million (48.3%) of the costs included on the FSR by DWCCMHA. In the fiscal year ended 9/30/2000 their reported costs were \$283 million (47.3%) of the costs included on the FSR by DWCCMHA. For each of these agencies we completed an internal control questionnaire to review internal controls relating to accounting for revenues and expenditures, procurement and other contracting procedures, reporting, and claims management. We interviewed each agency's finance director and chief operating officer. We reviewed each agency's policies and procedures. We examined contracts for compliance with guidelines, rules, and regulations. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the Service and Expenditure Reports (SER) filed with DWCCMHA in compliance with the contract terms with DWCCMHA and with the MSSSC reporting requirements and applicable accounting standards.

¹ On-site fieldwork was performed at the following 12 community agencies: Neighborhood Service Organization, Family Neighborhood Services, The Guidance Center, Community Living Services, Southwest Detroit, Wayne Center, Arab American Chaldean Council, Macomb Oakland Regional Center, Detroit Central City, Residential Care Alternatives, Metro Emergency Services and Hegira.

We examined the records and activities of 17 residential providers that had contracts with community agencies. For each of these providers we completed an internal control questionnaire to review internal controls relating to accounting and reporting of revenues and expenditures. We interviewed each residential contractor's finance director and chief operating officer. We reviewed each residential contractor's policies and procedures. We examined contracts for compliance with guidelines, rules, and regulations. We summarized and analyzed revenue and expenditure account balances to determine if they were properly reported on the Revenue and Expenditure Reports (RERs) filed with the community agencies in compliance with the contract terms.

We reviewed most other RERs from residential providers at the community agencies. This review included confirmation of reporting, payment and settlement of the specialized residential contract RERs with the applicable contract terms, policies, accounting standards and laws and regulations.

To determine the amount due to/from MDCH we first reconciled and adjusted the Financial Status Reports (FSR) filed with the MDCH to the amounts reported by the various subcontractor agencies. Those amounts were then further adjusted to reflect compliance with the terms of the contracts with subcontractor agencies that we audited. Other non-contract agency costs reported on the FSRs were also compared and adjusted to reflect the actual allowable and properly documented costs.

We performed our audit procedures from July 2001 through July 2003.

CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

CONTRACT AND BEST PRACTICE GUIDELINES COMPLIANCE

Objective 1: To assess DWCCMHA’s effectiveness and efficiency in establishing and implementing specific policies and procedures, and complying with the MSSSC requirements and best practices guidelines.

Conclusion: DWCCMHA was not effective and efficient in establishing and implementing specific policies and procedures, and complying with the MSSSC requirements and best practice guidelines. We found several material exceptions relating to compliance with the MSSSC requirements. The Risk Management Strategy was unsupported and not fully implemented (Finding 1), subcontracts were not executed or lacked clearly defined terms (Finding 2), subcontractor audits were not timely and were not sufficient (Finding 3), controls over receivable and payable accounts were not adequate (Finding 4), and we noted numerous inappropriate financial reporting practices (Findings 5 through 11). Since Findings 5 through 11 also relate to financial reporting, they are addressed in detail under Objective 2.

Finding

1. Risk Management Strategy Unsupported and Not Fully Implemented

DWCCMHA’s risk management strategy included a procedure that was not implemented and projections that were not supported, and indicated that DWCCMHA had set up a risk reserve in the amount of \$10 million that it could not support in violation of the MSSSC. Although submitted for approval, the risk management strategy was never approved by MDCH.

The MSSSC, Section 8.8.3 Risk Management Strategy, states, “The CMHSP shall be responsible for developing and implementing a comprehensive risk management strategy that has been approved by the MDCH as a contractual performance objective. The risk management strategy shall minimally consider the following:

1. The number of Medicaid eligibles as well as the total population of the CMHSP's service area as related to risk.
2. The CMHSP's current penetration rates relative to current expectations of penetration rates based upon a reliable methodology.
3. Historical and current abilities by the CMHSP to accurately predict need using a sound methodology.
4. The CMHSP's ability to competently and comprehensively maintain a system of access, authorization, claims management, utilization management, real time data collection and analysis, and TQM practice and documentation of improvements.
5. The CMHSP Board developed, implemented and maintained strategic plan consistent with the vision and mission of the organization.
6. The CMHSP's provider network including an assessment of the competencies and sufficient resources to ensure choice, quality and market competition.
7. The CMHSP's relationship with other community organizations and resources to promote efficiencies and access to consumer entitled and/or naturally available resources.
8. Historical and current financial performance and viability as evidenced in routine fiscal practices and the accuracy of both revenue and expenditure projections.”

DWCCMHA did not implement their risk management strategy as it was written. DWCCMHA's risk management strategy states that they would use a quarterly utilization report to consider Medicaid eligibles and the total population as related to risk. However, DWCCMHA was unable to provide MDCH audit with the referenced quarterly utilization report, and there was no other evidence to support their compliance with point 1 in the requirements of a risk management strategy.

DWCCMHA could not provide evidence to support a claim regarding risk reserves in their risk management strategy. DWCCMHA's risk management strategy states that they were relying on a \$10 million “rainy day fund” at Wayne County to meet their local obligation in the risk corridors. DWCCMHA was unable to provide any evidence to support the claim that these funds were reserved for DWCCMHA cost over runs. MDCH audit requested

items including evidence of a restricted fund in the audited financial statements of Wayne County or motions of the Wayne County Commissioners to support that the \$10 million “rainy day fund” existed and was in fact restricted for DWCCMHA’s share of the risk corridors. However, no support was provided. Therefore, the risk management strategy misrepresented the reserves available to DWCCMHA and inappropriately minimized the potential risk of DWCCMHA not having adequate reserves for their share of cost over runs into the risk corridors.

DWCCMHA could not support projections used in their risk management strategy. DWCCMHA’s risk management strategy indicated that they had used historical cost analyses to project expenditure increases. DWCCMHA’s risk management strategy states that historical cost showed a .5% to 1.5% variance between budget and actual costs based upon DWCCMHA’s 96/97 and 97/98 cost reports filed with MDCH. However, we determined the actual cost over runs were 1.78% to 4.22% based on filed cost reports. Since the expenditure increase projections were based on much lower than actual historical results, DWCCMHA’s potential risk was likely understated in the risk management strategy.

Recommendations

We recommend DWCCMHA amend their current risk management strategy to reflect accurate risk projections and the actual dedicated reserved funds for their local obligation, and submit the risk management strategy to MDCH for approval. We also recommend that DWCCMHA retain documentation to support their risk management strategy representations and to support its implementation.

Finding

2. Subcontracts Not Executed or Lacked Clearly Defined Terms

DWCCMHA did not have controls in place to ensure that contracts with subcontractors were properly executed and contained clearly defined payment terms in violation of the MSSSC and the Code of Federal Regulations. For the six months ended 9/30/2000, DWCCMHA paid one provider over \$14 million without the benefit of a signed contract.

The MSSSC, Section 4.7.6.2 Subcontracting, states, in part, “The CMHSP may subcontract for the provision of any of the services specified in this Contract. The CMHSP shall be held solely and fully responsible to execute all provisions of this contract regardless if said provisions are directly pursued by the CMHSP, pursued by the CMHSP through a subcontract vendor or any combination thereof.... As related to the requirements of the Medicaid Waiver approved by the Health Care Financing Administration (HCFA), subcontracts entered into by the CMHSP shall consider the following:...7. Payment arrangements (including coordination of benefits) and solvency requirements.”

The MSSSC, Section 3.10, requires DWCCMHA to comply with all applicable federal, state and local laws, and lawfully enacted administrative rules or regulations.

Federal regulation 42 CFR 434.6 provides general requirements for all contracts and subcontracts. Section 434.6(b) states, in pertinent part, “All subcontracts must be in writing and fulfill the requirements of this part that are appropriate to the service or activity delegated under the subcontract.” Section 434.6(c) states, in pertinent part, “No subcontract terminates the legal responsibility of the contractor to the agency to assure that all activities under the contract are carried out.”

DWCCMHA paid Metro Emergency Services (MES) over \$14 million for the six months ended 9/30/2000 to manage the funding for 94 sub-contracted specialized residential group homes with no signed contract between MES and DWCCMHA. Additionally, there were no signed contracts between MES and the 94 specialized residential group homes that received funding from DWCCMHA through MES. Without a signed contract, there is no legally binding relationship obligating the subcontractor to furnish the services. The lack of signed subcontracts is clearly a violation of 42 CFR 434.6 and hinders DWCCMHA’s ability to assure that required activities are carried out.

Further, the fee rates in some contracts with community hospitals were not defined. This resulted in confusion regarding the allowable fee rates. DWCCMHA and Aurora Hospital disputed the fee rates and the amounts due to the hospital for services. This dispute was

taken to court for resolution. All contracts with service providers should have clearly defined financial terms. This will prevent disputes, costly litigation, and unnecessary costs.

Recommendation

We recommend DWCCMHA adopt policies and procedures to ensure that all subcontracts have clearly defined terms, and are signed prior to the beginning date of the contract.

Finding

3. Subcontractor Audits Not Timely and Not Sufficient

DWCCMHA did not adequately monitor their net cost provider contractors because they did not require timely audits and did not require those audits to adequately address MSSSC requirements.

The MSSSC, Section 4.7.6.2 Subcontracting, states, in part, “The CMHSP may subcontract for the provision of any of the services specified in this Contract. The CMHSP shall be held solely and fully responsible to execute all provisions of this Contract regardless if said provisions are directly pursued by the CMHSP, pursued by the CMHSP through a subcontract vendor or any combination thereof.”

DWCCMHA advances funds to net cost provider contractors. Then, DWCCMHA contracts with outside auditors to perform audits of their subcontract providers. Based on these audits, DWCCMHA “settles” with their net cost contractors and determines amounts due to or due from the contractors. The settlement amounts are recorded in accounts receivable or accounts payable accounts.

The subcontractor audits and settlements were not completed timely. DWCCMHA did not issue a request for proposal for subcontract provider audits for fiscal years 1999 and 2000 until 2001. As a result, the audits and settlements were not completed timely. Of 34 subcontractors’ audits and settlements we reviewed for the year ended 9/30/1999, the audits were dated on average 2.3 years after the fiscal year end, and the settlements were dated on average 3.5 years after the fiscal year end. Of the 32 subcontractors’ audits and settlements

we reviewed for the year ended 9/30/2000, the audits were dated on average 1.9 years after the fiscal year end, and the settlements were dated on average 2.5 years after the fiscal year end. Since the settlement amounts are not known at the time DWCCMHA reports their costs to MDCH and DWCCMHA does not accrue for anticipated settlements, the FSRs do not reflect accurate subcontractor costs. This financial reporting issue is addressed in greater detail in Finding #7.

The subcontractor audits did not address all relevant requirements. The request for proposal for subcontractor provider audits issued by DWCCMHA did not require that the audits address compliance with all requirements of the MSSSC, OMB Circular A-87 and other applicable standards. As a result, the audits did not identify compliance violations relating to the recognition basis for accounts receivable, related party transactions, allowable cost principles, cost categories, and budget limits. Since DWCCMHA's settlements with their subcontractors are based on audits that do not consider all compliance requirements, DWCCMHA paid subcontractors for unallowable costs. As stated in the MSSSC, Section 4.7.6.2, DWCCMHA is solely and fully responsible to execute all provisions of the MSSSC. Accordingly, DWCCMHA is obligated to repay MDCH for any reported subcontractor costs determined unallowable under the provision of the MSSSC. Reported subcontractor costs determined unallowable and the related financial adjustments are addressed in Finding #6.

Recommendations

We recommend DWCCMHA implement policies and procedures to ensure that DWCCMHA contracts for audits and completes settlements of net cost contractors timely so the FSRs are properly adjusted to reflect settlement amounts or accruals for anticipated settlements for which the contract period covers. We also recommend DWCCMHA establish policies and procedures to ensure that audits of net cost contractors confirm compliance with the applicable federal and state laws and regulations as well as the terms of the MSSSC.

Finding

4. Inadequate Controls Over Receivable and Payable Accounts

DWCCMHA did not have adequate controls in place to ensure that it effectively and efficiently managed its account receivables and payables in violation of the MSSSC and safe and sound business practices.

DWCCMHA performs settlements with subcontractor providers after fiscal year ends to determine amounts due to or due from providers (as explained in Finding #3). The settlement amounts are recorded in payable or receivable accounts. The payable and receivable accounts also include estimates. As of September 30, 2000, DWCCMHA had \$24,830,196 in accounts payable and \$34,372,412 in accounts receivable. DWCCMHA did not collect or pay settlements with its subcontractor provider agencies on a timely basis. The accounts receivable balance included amounts due DWCCMHA from 30 providers dating back as far as nine years. Up to five years worth of settlements were outstanding for some of these providers. The majority of the amounts booked as accounts payable was based on estimates and were not supported by individual subsidiary ledgers or calculated settlements. In some instances, the accounts payable still reflected estimates from fiscal years dating back as far as eight years. While still significant, a much smaller percentage of the accounts receivable balance was based on estimates.

Untimely settlement of receivables is an unsafe and unsound business practice as it jeopardizes collection. For example, DWCCMHA has a receivable from RCA in the amount of \$764,930. Since RCA has now filed for bankruptcy protection, the likelihood of DWCCMHA's being able to collect from RCA is questionable. Untimely settlement of receivables also represents a non-prudent use of public funds. DWCCMHA advanced funds to providers and the advanced funds exceeded allowable expenditure amounts, but DWCCMHA failed to recover the excess funds. This represents a non-prudent use of public funds. The MSSSC, Section 2.0 PREAMBLE, states, in part, "It is the intent that the CMHSP and the MDCH pursue all decisions and actions in the execution of this Contract consistent with the fundamental values as stated below.... Public funds will be expended in a manner that is legal, prudent, and ethical."

The untimely settlement of payables is a violation of the MSSSC. The MSSSC, Section 4.3 RESPONSIBILITY FOR PAYMENT OF AUTHORIZED SERVICES, states, in part, “A CMHSP shall be responsible for payment of services that the CMHSP authorized, regardless of where, or by whom, these services are delivered.” The failure to promptly liquidate payables could jeopardize a subcontractors’ ability to provide services.

Recommendation

We recommend DWCCMHA establish policies and procedures over its account receivables and payables to ensure that settlements are collected and paid timely, and that subcontracted provider agencies are reimbursed appropriately.

FINANCIAL REPORTING

Objective 2: To assess DWCCMHA’s effectiveness and efficiency in reporting their financial activity to MDCH in accordance with the MSSSC requirements; applicable federal, state, and local statutory requirements; Medicaid regulations; and applicable accounting standards.

Conclusion: DWCCMHA was not effective in reporting their financial activity to MDCH on the Financial Status Report as required by the MSSSC, applicable statutory requirements, Medicaid regulations, and applicable accounting standards. We found numerous financial reporting exceptions that resulted in significant overstatements of reported costs to MDCH. In summary, reported costs were not supported by the general ledger or contractor cost reports (Finding 5), inappropriately claimed costs of subcontractors were paid and reported to MDCH (Finding 6), subcontractor settlement amounts were not reflected in the FSRs (finding 7), community hospital expenditures were reported at advanced amounts that greatly exceeded authorized billings (Finding 8), grants were inappropriately reported at budgeted amounts rather than actual expenditures (Finding 9), undocumented administration expenses were reported (Finding 10), and the Central Service Cost Allocation Plans contained deficiencies (Finding 11).

Finding

5. Reported Costs Not Supported by General Ledger or Contractor Cost Reports

DWCCMHA reported expenditures on its final FSRs submitted to MDCH based on a combination of contractor reported, advanced, and budgeted amounts rather than actual expenditures incurred and recorded in the DWCCMHA's general ledger in accordance with generally accepted accounting principles, which is a violation of the Mental Health Code, the MSSSC, and Office of Management and Budget (OMB) Circular A-87. Additionally, DWCCMHA misclassified expenditures between Medicaid costs and general fund costs, which is a violation of the MSSSC and OMB Circular A-87.

MDCH audit used positive confirmations with contract agencies to verify the amounts used by DWCCMHA in their FSRs. Between the two years, confirmed costs of 18 of 58 (31%) contract agencies did not agree with amounts used by DWCCMHA in their FSRs.

DWCCMHA did not use their general ledger accounting system to prepare the FSRs filed with MDCH. Instead, DWCCMHA used an Excel worksheet to summarize contractor and other costs to include on the FSRs. DWCCMHA's Excel worksheet that was used to prepare the FSR inappropriately included a combination of contractor reported amounts, budgeted amounts and advances rather than actual expenses incurred and supported by the general ledger.

The Mental Health Code, Section 242, states, "The following expenditures by a community mental health services program are not eligible for state financial support...(c) Any cost item that does not represent or constitute a real or actual expenditure by the community mental health services program."

The MSSSC, Section 4.11 **EXAMINATION, MAINTENANCE AND RETENTION OF RECORDS**, states, "The CMHSP shall maintain all pertinent financial and accounting records and evidence pertaining to this Contract in accordance with generally accepted principles of accounting and other procedures specified by the State of Michigan. The CMHSP shall maintain in a legible manner, via hard copy or electronic storage/imaging,

financial and clinical records necessary to fully disclose and document the extent of services provided to recipients.”

The MSSSC, Section 8.6 OPERATING PRACTICES, states, in pertinent part, “The CMHSP shall adhere to Generally Accepted Accounting Principles.... The following documents shall guide program accounting procedures: 1. Generally Accepted Accounting Principles for Governmental Units...3.OMB A-87.”

OMB Circular A-87, Attachment A, Section C. Basic Guidelines, states, in pertinent part, “1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:...g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles...j. Be adequately documented...3. Allocable costs. a. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

The MSSSC, Attachment 8.9.1, clearly requires the allocation of expenditures to programs based on services provided to the various program populations. Attachment 8.9.1, Section 2.4.3, states, in pertinent part, “Row K: Specialty Managed Care Services. Row K is the sum of all specialty managed care expenditures. This section applies to specialty managed care services within the waiver regardless of funding source and represents plan services provided to the Medicaid recipient population...Row L: State GF Categorical and Formula Funding. This row includes all expenditures for mental health services provided to the population supported through formula and categorical funding.”

DWCCMHA’s reported costs did not fully represent real or actual expenditures of DWCCMHA as they included budgeted contractor costs. Additionally, DWCCMHA’s reported costs were not adequately documented, not determined in accordance with generally accepted accounting principles, and not allocated according to benefits received and based on populations served. Therefore, adjustments must be made to accurately report real or actual expenditures based on populations served.

The FSRs included the following errors when comparing DWCCMHA's reported costs to the contract agencies' reported costs or DWCCMHA's general ledger (for administration costs):

- a. For the fiscal year ended 9/30/99, contract agency costs were understated by \$7,970,103 on the FSR. Additionally, Medicaid costs and General Fund costs were misclassified.
- b. For the fiscal year ended 9/30/00, contract agency costs were overstated by \$9,181,228 on the FSR. Additionally, Medicaid costs and General Fund costs were misclassified.
- c. For the fiscal year ended 9/30/1999, administration costs were overstated \$19,556 when compared to the general ledger.
- d. For the fiscal year ended 9/30/2000, administration costs were overstated \$291,963 when compared to the general ledger.

Schedules A and B show adjustments to correct the \$7,970,103 understatement of contractor costs and the \$19,556 overstatement of administration costs. Schedules D and E show adjustments to correct the \$9,181,228 and \$291,963 overstatements of contractor costs and administration costs, respectively.

Recommendation

We recommend DWCCMHA implement necessary policies and procedures to ensure that costs reported on the FSRs are supported by the general ledger accounting system used by DWCCMHA, properly allocated between Medicaid costs and general fund costs, and those costs accurately represent costs of the net cost providers.

Finding

6. Inappropriately Claimed Costs Paid to Subcontractors

DWCCMHA paid inappropriately claimed subcontractor costs of \$15,100,705 for FYE 1999 and \$10,778,175 for FYE 2000, and recorded them on their FSRs filed with MDCH in violation of the MSSSC.

DWCCMHA contracts with various service providers to purchase services for consumers on a net cost basis. Service providers receive advances from DWCCMHA and submit Service and Expenditure Reports (SERs) to DWCCMHA. These SERs are supposed to detail actual costs according to the contract budget categories. The contract between DWCCMHA and their subcontractors provides for a cost settlement of the final SER. As addressed in Finding #3, DWCCMHA contracts with outside auditors to perform audits of their subcontract providers. Based on the audits, DWCCMHA “settles” with their net cost contractors and determines amounts due to or due from the contractors. However, the subcontractor audits did not address all relevant requirements. Consequently, unallowable claimed costs were not identified and were paid by DWCCMHA. The unallowable expenditures that were claimed by subcontractors and paid by DWCCMHA were then included on FSRs filed with MDCH.

The MSSSC, Section 4.7.6.2 Subcontracting, states, in part, “The CMHSP may subcontract for the provision of any of the services specified in this Contract. The CMHSP shall be held solely and fully responsible to execute all provisions of this Contract regardless if said provisions are directly pursued by the CMHSP, pursued by the CMHSP through a subcontract vendor or any combination thereof.” Therefore, DWCCMHA is solely and fully responsible to execute all provisions of the MSSSC, and all subcontractor costs included on the FSR by DWCCMHA must comply with the MSSSC, OMB Circular A-87 and all other applicable reporting standards.

The following summarizes our findings:

- a. Subcontractors’ claimed costs did not agree with subcontractors’ supporting accounting records.

Section 242 of the Mental Health Code states, in part, “The following expenditures by a community mental health services program are not eligible for state financial support...(c) Any cost item that does not represent or constitute a real or actual expenditure by the community mental health services program....”

OMB Circular A-87, Attachment A, Section C. Basic Guidelines, states, in part, “1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:...a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards. c. Be authorized or not prohibited under State or local laws or regulations...g. Except as otherwise provided for in this Circular, be determined in accordance with generally accepted accounting principles...j. Be adequately documented. 2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost...In determining reasonableness of a given cost, consideration shall be given to:...d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government.”

Reported costs that have no supporting documentation cannot be claimed as real or actual expenditures by the community mental health services program and are therefore unallowable. Additionally, reported costs that are not supported by accounting records are not allowable as they are not determined in accordance with generally accepted accounting principles, not adequately documented, and not reasonable.

b. Subcontractors’ claimed costs exceeded contractual limits.

The subcontracts include budget limits on funding based on certain budget categories. Service provider contract, page 16, Article 4, Method of Payment, section 4.01, General Agreement to Fund, states, “The Agency will provide funding using a “Global Budgeting” funding concept. Global Budgeting provides for the allocation of funds to Service Providers in specific funding categories, also referred to as funding streams, and for the flexible use by the Service Provider... It does not allow for the transfer of funds between streams, without prior written consent of the Agency.” DWCCMHA (agency) did not limit claimed costs for reimbursement to

subcontractors to these contract budget limits. DWCCMHA claimed costs reported by the agencies without regard to amounts that exceeded specific line item limits.

The paid and claimed costs in excess of contract budget limits are not allowable under OMB Circular A-87, because they are not necessary and reasonable, and it is not prudent to pay in excess of contract budget limits.

- c. Subcontractors' claimed costs did not comply with OMB Circular A-87 cost principles.

DWCCMHA included subcontractors' costs on the FSRs that did not comply with OMB Circular A-87 cost principles. These costs included unallowable charges for improperly allocated indirect costs (unallowable amount of \$1,094,857 involving 10 agencies); capital asset purchases expensed and not depreciated (unallowable amount of \$1,567,808 involving 8 agencies); related party charges in excess of underlying costs (unallowable amount of \$527,031 involving 5 agencies); fund raising expenses (unallowable amount of \$96,687 involving 2 agencies); and undocumented costs, payroll expense errors, costs reported in the wrong year, and duplicate charges (net additional allowable amount of \$106,371 involving 9 agencies). DWCCMHA also did not include some additional subcontractors' costs on the FSRs that complied with OMB Circular A-87 cost principles.

To be allowable under Federal awards, costs must meet the general criteria set forth in OMB Circular A-87, Attachment A, Section C. Basic Guidelines, as described in part a. of this finding.

OMB Circular A-87, Attachment B, Section 38, Rental Costs, states, in part, "Rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the governmental unit. For this purpose, less-than-arms-length leases include, but are not limited to, those where:

- (1) One party to the lease is able to control or substantially influence the actions of the other;
- (2) Both parties are parts of the same governmental unit; or
- (3) The governmental unit creates an authority or similar entity to acquire and lease the facilities to the governmental unit and other parties.

OMB Circular A-87, Attachment B, Section 15. Depreciation and use allowances, states, “a. Depreciation and use allowances are means of allocating the cost of fixed assets to periods benefiting from asset use. Compensation for the use of fixed assets on hand may be made through depreciation or use allowances.”

OMB Circular A-87, Attachment B, Section 21. Fund raising and investment management costs, states, “a. Costs of organized fund raising, including financial campaigns, solicitation of gifts and bequests, and similar expenses incurred to raise capital or obtain contributions are unallowable, regardless of the purpose for which the funds will be used.”

OMB Circular A-87, Attachment E, Section D. 1. a., states, “All departments or agencies of the governmental unit desiring to claim indirect costs under Federal awards must prepare an indirect cost rate proposal and related documentation to support those costs. The proposal and related documentation must be retained for audit in accordance with the records retention requirements contained in the Common Rule.”

- d. Subcontractors’ claimed costs were not always offset by other revenue received by the subcontractors.

DWCCMHA’s contracts with subcontract providers, Attachment C 3.3 Revenue and Expenditure Reports, states, “The Service Provider will continue to adhere to the revenue and expenditure reporting requirements applicable in the FY 98-99 budget year.” This included the DWCCMHA policy and procedure manual. Page 2 states,

“Net Matchable costs – are the gross costs reflected in the Service Provider’s Board approved spending plan...less the costs of non-approved programs, non-matchable costs, the portion of matchable approved program costs financed from other state or federal funds, third-party payers for services provided by the Service Provider and other amounts earned by the service provider in providing matchable services.”

In several cases, the subcontractors did not offset costs appropriately with applicable revenues. The paid and claimed costs in excess of contractual requirements are not allowable under OMB Circular A-87, because they are not necessary and reasonable, and it is not prudent to pay in excess of contractual limits.

- e. Subcontractors’ claimed costs included costs not allowed by their subcontracts with specialized residential group homes.

Subcontracts between provider agencies and the specialized residential group homes defined allowable costs or fees under those contracts. Some provider agencies reported advances instead of allowable costs or fees in violation of the contracts. Some provider agencies reported costs of the specialized residential group homes that did not comply with the terms of the contracts, the MSSSC and OMB Circular A-87.

The Agency Contract, Attachment C 3.3 Revenue and Expenditure Reports, states, “The Service Provider will continue to adhere to the revenue and expenditure reporting requirements applicable in the FY 98-99 budget year.” The DWCCMHA policy and procedure manual, page 2, states, “Net Matchable costs – are the gross costs reflected in the Service Provider’s Board approved spending plan...less the costs of non-approved programs, non-matchable costs, the portion of matchable approved program costs financed from other state or federal funds, third-party payers for services provided by the Service Provider and other amounts earned by the service provider in providing matchable services. Refer to the Michigan Department of Mental Health’s Community Mental Health State Financing Guidelines ViI-F-001-0001 dated 11/7/85 as amended for further clarification regarding the

eligibility (matchability) of community mental health expenditures for State financing.”

To be allowable under Federal awards, costs must meet the general criteria set forth in OMB Circular A-87, Attachment A, Section C. Basic Guidelines, as described in part a. of this finding. Reporting advances rather than allowable costs under these contracts is not reasonable or prudent. Reporting costs for these contracts that do not qualify under the MSSSC and OMB Circular A-87 is not reasonable or prudent.

The findings described above (a-e) resulted in costs being overstated by \$15,100,705 and \$10,778,175 for the fiscal years ended 9/30/1999 and 9/30/2000, respectively. The adjustments are identified by subcontract agency in the following schedules.

Adjustments to Subcontractors' Reported Costs

Fiscal Year Ended 9/30/1999

<u>Adjustments (Descriptions Below)</u>						
<u>Subcontract Agency</u>	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>	<u>(d)</u>	<u>(e)</u>	<u>Total</u>
NSO	432,074	(3,661,901)	152,795	(113,524)	(6,318)	(3,196,874)
FNS	548,117	0	(153,741)	(670,392)	0	(276,016)
Guidance Center	891,384	(394,512)	(323,667)	(5,204)	(16,960)	151,041
CLS	(406,848)	(6,598,310)	(675,352)	0	(1,550,306)	(9,230,816)
SW Detroit	136,706	0	(421,340)	0	0	(284,634)
Wayne Center	(195,406)	0	(76,922)	0	(592,397)	(864,725)
AACC	0	(240,834)	(86,155)	0	0	(326,989)
MORC	443,545	0	(35,709)	(101,871)	(23,307)	282,658
Detroit Central City	277,235	0	(402,288)	0	0	(125,053)
RCA	31,861	0	(261,057)	0	0	(229,196)
Hegira	(6,874)	(995,037)	1,810	0	0	(1,000,101)
Totals	<u>\$2,151,794</u>	<u>(\$11,890,594)</u>	<u>(\$2,281,626)</u>	<u>(\$890,991)</u>	<u>(\$2,189,288)</u>	<u>(\$15,100,705)</u>

NSO = Neighborhood Service Organization

FNS = Family Neighborhood Services

CLS = Community Living Services

AACC = Arab American Chaldean Council

MORC = Macomb Oakland Regional Center

RCA = Residential Care Alternatives

Adjustment Descriptions

(Over) / under reported subcontract costs based on supporting service and expenditure reports.

- (a) Claimed subcontractors' costs that were not supported by the subcontractors' accounting records.
- (b) Subcontractors' costs that exceeded the contract budget limits.
- (c) Payments for costs incurred and billed by subcontractors that did not comply with the contract or OMB Circular A-87.
- (d) Payments for costs incurred and billed by subcontractors that should have been offset by other revenue.
- (e) Claimed subcontractor costs that were not allowed under the contracts and applicable standards.

Adjustments to Subcontractors' Reported Costs

Fiscal Year Ended 9/30/2000

<u>Adjustments (Descriptions Below)</u>						
<u>Subcontract Agency</u>	<u>(a)</u>	<u>(b)</u>	<u>(c)</u>	<u>(d)</u>	<u>(e)</u>	<u>Total</u>
NSO	(119,774)	(2,165,143)	(25,140)	0	(1,909)	(2,311,966)
FNS	0	(634,743)	145,041	(704,200)	0	(1,193,902)
Guidance Center	1,392,990	(740,907)	(751,315)	0	(19,356)	(118,588)
CLS	(125,750)	(2,120,321)	(156,641)	0	(891,297)	(3,294,009)
SW Detroit	(396,234)	0	(723,011)	0	0	(1,119,245)
Wayne Center	119,357	0	(46,323)	(394,377)	(980,941)	(1,302,284)
AACC	0	(15,792)	(109,300)	0	0	(125,092)
MORC	32,027	(777,252)	(62,607)	(103,284)	0	(911,116)
Detroit Central City	680,397	0	(756,818)	0	0	(76,421)
RCA	(1,756,616)	0	(138,162)	0	0	(1,894,778)
MES	691,835	0	1,778,193	0	(650,535)	1,819,493
Hegira	(1,790)	(196,174)	(52,303)	0	0	(250,267)
Totals	<u>\$516,442</u>	<u>(\$6,650,332)</u>	<u>(\$898,386)</u>	<u>(\$1,201,861)</u>	<u>(\$2,544,038)</u>	<u>(\$10,778,175)</u>

NSO = Neighborhood Service Organization

FNS = Family Neighborhood Services

CLS = Community Living Services

AACC = Arab American Chaldean Council

MORC = Macomb Oakland Regional Center

RCA = Residential Care Alternatives

MES = Metro Emergency Services

Adjustment Descriptions

(Over) / under reported subcontract costs based on supporting service and expenditure reports.

- (a) Claimed subcontractors' costs that were not supported by the subcontractors' accounting records.
- (b) Subcontractors' costs that exceeded the contract budget limits.
- (c) Payments for costs incurred and billed by subcontractors that did not comply with the contract or OMB Circular A-87.
- (d) Payments for costs incurred and billed by subcontractors that should have been offset by other revenue.
- (e) Claimed subcontractor costs that were not allowed under the contracts and applicable standards.

Audit adjustments removing \$15,100,705 from reported expenditures for FYE 1999 are shown on Schedules A and B, and \$10,778,175 from reported expenditures for FYE 2000 are shown on Schedules D and E.

Recommendations

We recommend DWCCMHA adopt policies, procedures and contract terms to ensure payment and accurate reporting of net cost contractor expenses that are supported by subcontractor accounting records. We also recommend DWCCMHA adopt policies, procedures and contract terms to identify and disallow unallowable costs (including costs that exceed budget limits and costs that do not comply with contractual and regulatory requirements, including the Mental Health Code, and OMB Circular A-87) billed to DWCCMHA by net cost subcontractors.

In the instances where the conclusion of the audit findings is that additional costs are allowable for certain provider agencies, DWCCMHA must pay those provider agencies and provide proof of payment prior to the expenditure being considered for this audit settlement.

Finding

7. Subcontractor Settlement Amounts Not Reflected in FSRs

DWCCMHA did not adjust FSRs filed with MDCH to reflect settlement amounts with subcontractor provider agencies or accruals for anticipated settlements in violation of the MSSSC.

As stated in Finding #5, DWCCMHA reported expenditures on its final FSRs submitted to MDCH based on a combination of contractor reported, advanced, and budgeted amounts rather than actual expenditures recorded in the general ledger. As stated in Finding #3, subcontractor audits and settlements were not completed timely. Therefore, subcontractor settlement amounts are not known at the time DWCCMHA reports their costs to MDCH. However, DWCCMHA does not estimate settlements and adjust FSR reports to MDCH accordingly. The settlement amounts are recorded in accounts receivable or accounts

payable accounts, but there is no evidence that FSRs are ever adjusted to reflect the settlement amounts.

The DWCCMHA policy and procedure manual, DMH/CMH financing cost settlements, states, “The Director or her/his designee(s) shall issue a settlement statement to each Service Provider after submission of the consolidated final report to the Michigan Department of Mental Health and again after issuance of compliance audit reports. The settlement statements shall indicate by funding category the net cost earned, the amount of funds advanced to the service provider by the Board and balance due to the board or services provider.” According to this policy, settlements with contract service providers occur *after* the submission of the FSR to MDCH. DWCCMHA has no policy or procedure in place to ensure they adjust FSRs with MDCH to reflect actual settled costs of contract service providers.

The MSSSC, Attachment 8.9.1, Section 1.3 Financial Status Report, states, in part, “With the exception of P.A. 423 Grant Funds, all reported revenue and expenditure information is required to be provided on an accrual basis of accounting. This accrual basis is expected to recognize all revenues and expenditures through the reporting periods.” The lack of any recognition of settlement amounts on FSRs is clearly a violation of the required accrual basis of accounting.

As of September 30, 2000 the aging of accounts receivable shows DWCCMHA had \$34,372,412 in accounts receivables, and the aging of accounts payable shows DWCCMHA had \$24,830,196 in accounts payable. These receivables and payables are primarily composed of settlements of provider subcontracts relating to periods prior to the audit period and other estimates. The settlement amounts, as well as additional settlement amounts that have flowed through the receivable and payable accounts that have already been paid, appear to have not been credited or charged to MDCH through the FSR reporting process. However, a review of prior periods showed that an adjustment to reduce total reported costs in the three fiscal years prior to the audit period would have no impact on state funding due to the level of excess local costs. For the audit period forward,

however, it is imperative that settlement amounts be properly reflected in FSRs to accurately show actual expenditures to allow for proper calculation of risk corridor financing.

No financial adjustment is being made for this finding as Finding #5 adjusted DWCCMHA's FSR reported costs to subcontractor reported costs, and Finding #6 then adjusted subcontractor reported costs to the MDCH audit settlement amount. Therefore, an adjustment to any DWCCMHA settlement amount is not necessary.

Recommendations

We recommend DWCCMHA implement policies and procedures to ensure that expenditures reported on the FSRs are properly adjusted to reflect settlement amounts with subcontractor provider agencies or accruals for anticipated settlements. We also recommend DWCCMHA implement policies and procedures to ensure that any revisions to settlement amounts and resulting revisions to expenditure amounts be properly reported to MDCH.

Finding

8. Community Hospital Expenditures Inappropriately Reported at Advanced Amounts

DWCCMHA inappropriately reported advances to the community hospitals as expenses on the FSRs for FYE 9/30/1999 and FYE 9/30/2000 that exceeded actual approved billings by \$11,716,920 and \$12,370,899, respectively, in violation of the Mental Health Code, OMB Circular A-87, and the MSSSC.

DWCCMHA contracts with community hospitals for inpatient services on a fee for service basis. DWCCMHA made monthly advances of funds to the contracted community hospitals based on the annual budgets for those contracts. The community hospitals then submitted billings for actual units of service, which are authorized and approved for DWCCMHA by MPRO (another contract agency of DWCCMHA). The amounts advanced greatly exceeded the final approved billings, but DWCCMHA did not settle the difference and collect funds due back from the community hospitals. DWCCMHA

reported the amounts advanced on the FSRs as cost of service in violation of the Mental Health Code, OMB Circular A-87, and the MSSSC.

Section 240 of the Mental Health Code states, in part, “All expenditures by a community mental health services program necessary to execute the program shall be eligible for state financial support, except those excluded under section 242.” Section 242 of the Mental Health Code states, in part, “The following expenditures by a community mental health services program are not eligible for state financial support...(c) Any cost item that does not represent or constitute a real or actual expenditure by the community mental health services program....” Advanced amounts, rather than costs supported by approved billings, do not represent real or actual expenditures that are necessary to execute the program, and are therefore unallowable.

OMB Circular A-87, Attachment A, Section C. Basic Guidelines, states, in part, “1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:...a. Be necessary and reasonable for proper and efficient performance and administration of Federal awards. b. Be allocable to Federal awards under the provisions of this Circular. c. Be authorized or not prohibited under State or local laws or regulations...j. Be adequately documented...2. Reasonable costs. A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost...In determining reasonableness of a given cost, consideration shall be given to:...d. Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the governmental unit, its employees, the public at large, and the Federal Government. 2. Allocable costs. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.”

Advances that exceed authorized billings actually represents a prepaid expenditure and do not represent costs that are necessary, reasonable, and chargeable. Further, paying contractors in excess of contractual obligations is not a prudent use of state and federal

funds. Therefore, advance amounts in excess of authorized billings are unallowable under the provisions of A-87.

In FY 98/99, the reporting of advances instead of authorized billings resulted in overcharges of \$5,389,343 for Medicaid covered consumers and \$6,327,577 for general fund covered consumers. Audit adjustments removing these costs are shown on Schedules A and B.

In FY 99/00, the reporting of advances instead of authorized billings resulted in overcharges of \$10,814,231 for Medicaid covered consumers and \$1,556,668 for general fund covered consumers. Audit adjustments removing these costs are shown on Schedules D and E.

Recommendations

We recommend DWCCMHA discontinue reporting advances to contractors for fee for service agreements on the FSR as expenditures and report actual billed, authorized and paid costs in compliance with the Mental Health Code, OMB Circular A – 87, and the MSSSC. We also recommend DWCCMHA amend any subsequently filed FSR to correct this error.

Finding

9. Grants Inappropriately Reported at Budgeted Amounts

DWCCMHA billed MDCH for budgeted amounts and reported budgeted grant and other agreement expenses on the FSRs rather than actual expenditures for FYE 9/30/1999 and FYE 9/30/2000 in violation of agreements and the MSSSC.

The PASARR Grant, PATH/Homeless Grant, Block Grant, Aging Grant, Prevention Grant, Substance Abuse Agreement, and the MSSSC require that DWCCMHA report expenditures to MDCH for services provided based on an actual cost basis. However, DWCCMHA inappropriately reported budgeted amounts on the FSRs and separate grant and agreement reports. This is not in compliance with various grant and agreement terms,

and the MSSSC. Additionally, MDCH was not billed the appropriate amounts for these separate grants and agreements.

The PASARR grant states, in part, “III. RECORDS, BILLINGS, AND REIMBURSEMENT B. The Board will submit monthly billings to the Department for services provided based on an actual cost basis as defined in ‘Revised Billing Procedures for OBRA Pre-Admission Screening’ issued February 20, 1996.” This memorandum states, in part, “The amounts reported...must be actual expenditures...Claims developed through the use of sampling, projections, or other estimating techniques are considered estimates and are not allowable under any circumstances.”

The PATH/Homeless, Block and Aging grants state, in part, “That any executed subcontract becomes part of this agreement and shall require the subcontractor to comply with all applicable terms and conditions of this agreement...any billing or request for reimbursement for subcontract costs is supported by a valid subcontract and adequate source documentation on costs and services.” The PATH/Homeless grant states, in part, “Plan and progress reporting requirements. A. Expenditure Reporting, Itemized project expenditure reports, submitted in a standardized format as specified by the PATH Coordinator, must reflect actual expenditures for the period specified.”

The Block grants state, in part, “IV. Payment and Reporting Procedures A. Financial Status Report Submission, The monthly Financial Status Reports must reflect total actual mental health block grant expenditures.”

The Prevention agreement states, in part, “Itemized expenditure reports, submitted in a standardized format as specified by the Grants Manager, must reflect actual expenditures for the period specified.”

The MSSSC, Attachment 7.0.1.5 Instructions for Completion of the Quarterly Substance Abuse Medicaid Managed Care Reports states, in part, “The quarterly reports are required to summarize revenues and expenditures...Payments – This column reflects the amount of

services/expenditures (delivered and paid for) and revenues received for the report period. Other Liability – The amounts entered in this column should represent the estimated service related costs for care using a sound methodology. Components of this include: 1) Actual services provided prior to the end of the quarter but not billed by providers because of billing due dates (30/60 days after service). 2) The amounts billed which were not clean claims but you expect to have to pay. 3) Amount attributable to retroactive eligibles.”

The MSSSC, Attachment 8.9.1 Section 2.4.3, Row C-1 states, in part, “Medicaid Pass-Through-Payments made to the Substance Abuse Coordinating Agency for substance abuse specialty managed care services per attachment 7.0.1.” The MSSSC, Attachment 8.9.1 Section 2.4.3, Row H, MDCH Earned Contracts states, in part, “Enter the sum of H1 through H8 on this line. Expenditures entered in this section should include those made by the CMHSP for services or goods or the provision of services as stated in the applicable contractual agreement.”

Schedules A and B show adjustments to the following expenditures as indicated:

- (\$948,205) decrease to Substance Abuse
- (\$90,682) decrease to OBRA/PASARR
- \$43,885 increase to PATH/Homeless
- (\$35,389) decrease to Block Grant
- \$5,626 increase to Aging Grant
- (\$139,394) decrease to Prevention Grant

Schedules D and E show adjustments to the following expenditures as indicated:

- \$437,816 increase to Substance Abuse
- (\$267,120) decrease to OBRA/PASARR
- (\$92,171) decrease to PATH/Homeless
- \$2,366,555 increase to Block Grant

Recommendations

We recommend DWCCMHA implement policies and procedures to ensure compliance with Grant, Substance Abuse Agreement, and MSSSC reporting requirements. Also, we recommend DWCCMHA submit amended billings to the MDCH grant offices to correct grant and substance abuse reports to reflect the actual allowable expenditures.

Finding

10. Inappropriate Reporting of Undocumented Administration Expenses

DWCCMHA included in the administrative costs on the FSRs for FYE 9/30/99 and FYE 9/30/00 costs of equipment, furnishings and miscellaneous contractual services which did not have supporting documentation in violation of the MSSSC, the Mental Health Code and OMB Circular A-87.

During our review of the administrative expense cost center/general ledger accounts at DWCCMHA we found that certain transactions lacked any supporting documentation. DWCCMHA was unable to provide us with vender receipts, purchase orders, cancelled checks or other supporting documentation that would fully support the transactions as actual and allowable expenditures. These undocumented costs totaled \$400,778 in FYE 9/30/99 and \$31,596 in FYE 9/30/00.

The MSSSC, Section 4.11 Examination, Maintenance and Retention of Records states, in part, “The CMHSP shall maintain in a legible manner, via hard copy or electronic storage/imaging, financial and clinical records necessary to fully disclose and document the extent of services provided to recipients. The records shall be retained for a period of seven (7) years from the date of service or termination of service for any reason. This requirement is also extended to all of the CMHSP contract agencies.”

Section 242 of the Mental Health Code states, in part, “The following expenditures by a community mental health services program are not eligible for state financial support...(c) Any cost item that does not represent or constitute a real or actual expenditure by the community mental health services program....”

OMB Circular A-87, Attachment A, Section C. Basic Guidelines, states, in part, “1. Factors affecting allowability of costs. To be allowable under Federal awards, costs must meet the following general criteria:...j. Be adequately documented.”

Reported costs that have no supporting documentation cannot be claimed as real or actual expenditures by the community mental health services program and are unallowable.

The undocumented costs of \$400,778 for FYE 9/30/1999 are removed by audit adjustment on Schedules A and B. The undocumented costs of \$31,596 for FYE 9/30/2000 are removed by audit adjustment on Schedules D and E.

Recommendation

We recommend DWCCMHA adopt policies and procedures to ensure accurate reporting of actual and allowable expenses under the Mental Health Code, OMB Circular A-87, and the MSSSC.

Finding

11. Central Service Cost Allocation Plan Deficiencies

DWCCMHA’s Central Service Cost Allocations Plans for FYE 9/30/1999 and 9/30/2000 were based on reported costs from 1995 and 1996 rather than the most recently completed year in violation of OMB Circular A-87. Additionally, DWCCMHA lacked documentation to support direct charges for corporate counsel costs and to evidence the proper removal of direct charges from the indirect cost pool.

OMB Circular A-87, Attachment C, STATE/LOCAL-WIDE CENTRAL SERVICE COST ALLOCATION PLANS, states the following:

Section B. Definitions.

1. “Billed central services” means central services that are billed to benefited agencies and/or programs on an individual fee-for-service or similar basis...

2. “Allocated central services” means central services that benefit operating agencies but are not billed to the agencies on a fee-for-service or similar basis. These costs are allocated to benefited agencies on some reasonable basis.

Section D. Submission Requirements.

1. ...The plan should include (a) a projection of the next year’s allocated central service cost (based either on actual costs for the most recently completed year or the budget projection for the coming year)...
3. All other local governments claiming central service costs must develop a plan in accordance with the requirements described in this Circular and maintain the plan and related supporting documentation for audit.

Section E. Documentation Requirements for Submitted Plans.

4. Required certification. Each central service cost allocation plan will be accompanied by a certification in the following form:...this is to certify that I have reviewed the cost allocation plan submitted herewith and to the best of my knowledge and belief:...the same costs that have been treated as indirect costs have not been claimed as direct cost.

The plans used for cost allocations by Wayne County for the fiscal years ended 9/30/1999 and 9/30/2000 were issued February 1999 and June 1999, respectively. The plans were based on the actual reported costs of the fiscal years ended November 30, 1995 and November 30, 1996. Based on the issue dates, these cost allocation plans should have been based on the actual reported costs for the fiscal years ended November 30, 1997 and November 30, 1998. This would provide a more current basis for cost allocation. Using a more current basis for cost allocation would also provide a more comparable set of data upon which to base the cost allocation plan. Having more current and comparable data would result in a more accurate cost allocation plan.

Wayne County assessed direct charges to DWCCMHA in FYE 9/30/1999 and FYE 9/30/2000 for corporate counsel staff that reportedly worked solely on legal issues for

DWCCMHA. Additionally, the cost allocation plans used by Wayne County for fiscal years ended 9/30/1999 and 9/30/2000 included Wayne County corporate counsel staff charges from fiscal years ended 11/30/1995 and 11/30/1996 in the indirect cost pool. Since corporate counsel staff charges were charged directly and corporate counsel staff charges also appeared in the indirect cost pool, the audit staff attempted to determine if proper adjustments were made to remove direct charges from the indirect cost pool. However, DWCCMHA provided no supporting documentation to evidence that corporate counsel staff charges from fiscal years ended 11/30/1995 and 11/30/1996 included in the indirect cost pool were not also charged as direct charges to DWCCMHA in those years. Furthermore, DWCCMHA provided no supporting documentation to evidence that the corporate counsel staff charges directly charged in fiscal year ends 9/30/1999 and 9/30/2000 were removed from subsequent cost allocation plans' indirect cost pools.

Finally, the direct charges to DWCCMHA in FYE 9/30/1999 and FYE 9/30/2000 for corporate counsel staff that reportedly worked solely on legal issues for DWCCMHA were not supported by periodic certifications as required by OMB Circular A-87. According to OMB Circular A-87, Attachment B, Section 11., compensation costs for personnel services are allowable to the extent that they satisfy the specific requirements of the Circular. Section h. (3) states, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee."

Since the Central Service Cost Allocation Plan did not have adequate supporting documentation to evidence the proper removal of direct charges, and the direct charges for corporate counsel staff were not supported by required certifications, the direct charges for corporate counsel staff are being disallowed. The direct charges of \$507,801 for FYE 9/30/1999 are removed by audit adjustment on Schedules A and B. The direct charges of \$604,177 for FYE 9/30/2000 are removed by audit adjustment on Schedules D and E.

Recommendations

We recommend that the cost allocation plan used by Wayne County to charge DWCCMHA for use of County costs be based on the most recent closed fiscal year's costs.

We also recommend that DWCCMHA annually review the indirect cost plan and direct charges from Wayne County to identify any potential direct charges that were not properly removed from the indirect cost pool, and adjust the county charges paid to Wayne County for them. In addition, DWCCMHA and Wayne County should retain sufficient supporting documentation to evidence the proper removal of direct charges from the indirect cost pool.

We also recommend that DWCCMHA ensure the periodic certifications as required by OMB Circular A-87 are completed and retained for the direct charges to DWCCMHA for Wayne County corporate counsel staff that reportedly work solely on legal issues for DWCCMHA.

MDCH'S SHARE OF COSTS AND BALANCE DUE MDCH

Objective 3: To determine MDCH's share of costs in accordance with applicable MDCH requirements and agreements, and any balance due to or due from DWCCMHA.

Conclusion: MDCH's obligations for FYE 9/30/1999 and FYE 9/30/2000 (excluding the MICHild capitated funds, MDCH Earned Contracts, and Children's Waiver funds) after audit adjustments are \$470,628,152 and \$494,358,830, respectively². DWCCMHA owes MDCH a balance of \$8,689,172 after considering advances and prior settlements as summarized below:

FYE 9/30/1999 MDCH Advances in Excess of MDCH Obligation (Schedule C)	\$3,754,722
FYE 9/30/1999 Prior Settlement (Schedule C)	17,195
FYE 9/30/2000 MDCH Advances in Excess of MDCH Obligation (Schedule F)	5,219,761
FYE 9/30/2000 Prior Settlement (Schedule F)	<u>(302,506)</u>
Total Balance Due to MDCH **	<u>\$8,689,172</u>

** As stated in footnote 2 below, if DWCCMHA does not submit a Medicaid Savings Reinvestment Plan to spend a total of \$27,194,942 in Medicaid Savings created as a result of audit adjustments, and does not spend the funds in accordance with the MDCH approved plan, MDCH will require DWCCMHA to return these funds to MDCH.

Additionally, the FYE 9/30/2000 audit adjustments created General Fund Carryforward of \$7,822,964. DWCCMHA must amend subsequent year FSRs to properly account for this General Fund Carryforward.

² The stated MDCH obligations for FYE 9/30/1999 and FYE 9/30/2000 include Medicaid savings created as a result of audit adjustments. This Medicaid Savings (\$15,985,709 for FYE 9/30/1999 and \$11,209,233 for FYE 9/30/2000) may only be retained by DWCCMHA if DWCCMHA submits a Medicaid Savings Reinvestment Plan to spend this Medicaid savings and the Plan is approved by MDCH. Failure of DWCCMHA to submit the Medicaid Savings Reinvestment Plan and to spend it according to the approved plan will require DWCCMHA to return these funds to MDCH.

Schedule A
Financial Status Report
October 1, 1998 through September 30, 1999

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Revenues Not Otherwise Reported	\$13,104,496	\$0	\$13,104,496
B. Substance Abuse Total	\$10,382,824	-	\$10,382,824
1 Medicaid Pass Through	10,382,824	-	10,382,824
2 Other	-	-	-
C. Earned Contracts (non MDCH) Total	\$4,673,172	\$0	\$4,673,172
1 CMH to CMH	-	-	-
2 Other	4,673,172	-	4,673,172
D. MI Child - Mental Health	\$67,697	\$0	\$67,697
E. Local Funding Total	\$18,591,515	\$0	\$18,591,515
1 Special Fund Account (226(a))	-	-	-
2 Title XX Replacement	18,591,515	-	18,591,515
3 All Other	-	-	-
F. Reserve Balances - Planned for use	-	-	-
1 Carryforward - Section 226(2)(b)(c)	-	-	-
2 Internal Service Fund	-	-	-
3 Other (205(4)(h))	-	-	-
4 Stop/loss Insurance	-	-	-
G. MDCH Earned Contracts Total	\$10,092,712	\$0	\$10,092,712
1 PASARR	2,195,396		2,195,396
2 Block Grant for CMH Services	6,328,735		6,328,735
3 DD Council Grants	-		-
4 PATH/Homeless	227,770		227,770
5 Prevention	190,000		190,000
6 Aging	189,000		189,000
7 HUD Shelter Plus Care	-		-
8 Other MDCH Earned Contracts	961,811		961,811
H. Gross Medicaid Total	\$333,291,992	-	\$333,291,992
1 Medicaid - Specialty Managed Care	331,116,020	-	331,116,020
2 Medicaid - Children's Waiver Total	2,175,972	-	2,175,972

Schedule A
Financial Status Report
October 1, 1998 through September 30, 1999

REVENUES		Reported Amount	Audit Adjustments	Adjusted Amount
I.	Reimbursements Total	\$22,042,914	-	\$22,042,914
1	1st and 3rd Party	4,862,674	-	4,862,674
2	SSI	17,180,240	-	17,180,240
J.	State General Funds Total	\$143,284,049	(\$17,195)	\$143,266,854
1	Formula Funding	86,473,979	2,009,064	88,483,043
2	Categorical Funding	1,371,648	(6,118)	1,365,530
3	State Services Base	54,996,689	(2,020,141)	52,976,548
4	MDCH Risk Authorization	441,733	-	441,733
5	Residential D.C.W.	-	-	-
K.	Grand Total Revenues	\$555,531,371	(\$17,195)	\$555,514,176
L.	Estimated MDCH Obligation (G+H+J)	\$486,668,753	(\$17,195)	\$486,651,558

Schedule A
Financial Status Report
October 1, 1998 through September 30, 1999

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Gross Total Expenditures	\$555,531,371	(\$20,939,816)	\$534,591,555
B. Expenditures Not Otherwise Reported	\$13,104,496	\$173,963	\$13,278,459
C. Substance Abuse Total	\$10,382,824	(\$979,810)	\$9,403,014
1 Medicaid Pass Through	10,382,824	(979,810)	9,403,014
2 Other	-	-	-
D. Earned Contracts (non MDCH) Total	\$4,673,172	\$130,963	\$4,804,135
1 CMH to CMH	-	-	-
2 Other Earned Contracts	4,673,172	130,963	4,804,135
E. MI Child - Mental Health	\$67,697	\$0	\$67,697
F. Local Total	\$6,110,743	\$19,657	\$6,130,400
1 Local Cost for State Provided Services	6,110,743		6,110,743
2 Other Not Used as Local Match		19,657	19,657
G. Expenditures From Reserve Balances	\$0	\$0	\$0
1 Carryforward - Sec 226(2)(b)(c)	-	-	-
2 Internal Service Fund	-	-	-
3 Other (205(4)(h))	-	-	-
4 Stop/Loss Ins.	-	-	-
H. MDCH Earned Contracts Total	\$10,092,712	\$294,975	\$10,387,687
1 PASARR	2,195,396	(90,682)	2,104,714
2 Block Grant for CMH Services	6,328,735	1,116,192	7,444,927
3 DD Council Grants	-		-
4 PATH/Homeless	227,770	43,885	271,655
5 Prevention	190,000	(139,394)	50,606
6 Aging	189,000	5,626	194,626
7 HUD Shelter Plus Care	-		-
8 Other MDCH Earned Contracts	961,811	(640,652)	321,159

Schedule A
Financial Status Report
October 1, 1998 through September 30, 1999

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
I. Matchable Services (A-(B through H))	\$511,099,727	(\$20,579,564)	\$490,520,163
J. Payments to MDCH for State Services	\$54,996,689	\$19,076	\$55,015,765
K. Specialty Managed Care Service Total	\$354,003,516	(\$24,136,652)	\$329,866,864
1 100% MDCH Matchable Services	227,965,866	(17,300,924)	210,664,942
2 All SSI and Other Reimbursements	13,774,534	(225,961)	13,548,573
3 Net MDCH Share for 100 % Services (K1-K2)	214,191,332	(17,074,963)	197,116,369
4 90/10 Matchable Services	126,037,650	(6,835,728)	119,201,922
5 Medicaid Federal Share	64,701,797	(3,106,610)	61,595,187
6 Other Reimbursements	3,310,418	(943,069)	2,367,349
7 10% Local Match Funds	5,802,544	(278,605)	5,523,939
8 Net State Share for 90/10 Services (K4-K5-K6-K7)	52,222,891	(2,507,444)	49,715,447
9 Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	331,116,020	(22,689,017)	308,427,003
L. GF Categorical and Formula Services Total	\$99,923,550	\$3,538,012	\$103,461,562
1 100% MDCH Matchable Services	28,554,964	128,618	28,683,582
2 All SSI and Other Reimbursements	371,652	284,961	656,613
3 Net GF and Formula for 100% Services (L1-L2)	28,183,312	(156,343)	28,026,969
4 90/10 Matchable Services	71,368,586	3,409,394	74,777,980
5 Reimbursements	4,586,310	(226)	4,586,084
6 10% Local Match Funds	6,678,228	340,962	7,019,190
7 Net GF and Formula for 90/10 Services (L4-L5-L6)	60,104,048	3,068,658	63,172,706
8 Total MDCH GF and Formula (L3+L7)	88,287,360	2,912,315	91,199,675
M. Children's Waiver - Total	\$2,175,972	-	\$2,175,972
1 Medicaid - Federal Share	1,147,172	-	1,147,172
2 Other Reimbursements	-	-	-
3 Net State Share (M-M1-M2)	1,028,800	-	1,028,800
4 Total MDCH Share Children's Waiver (M1+M3)	2,175,972	-	2,175,972
N. Unobligated Spending Authority Total	\$0	\$0	-
1 MDCH Risk Authorization	-	-	-
2 All Other	-	-	-
O. Total Local Match Funds (K7+L6)	\$12,480,772	\$62,357	\$12,543,129
P. Total MDCH Share of Expenditures (J+K9+L8+M4)	\$476,576,041	(\$19,757,626)	\$456,818,415

Schedule B
Explanation of Audit Adjustments
October 1, 1998 through September 30, 1999

REVENUES	Audit Adjustments
1. Formula Funding	\$2,009,064
2,009,064	To adjust revenue to the amounts used in the settlement between MDCH and DWCCMHA.
2. Categorical Funding	(\$6,118)
(6,118)	To adjust revenue to the amounts used in the settlement between MDCH and DWCCMHA.
3. State Services Base	(\$2,020,141)
(2,020,141)	To adjust revenue to the amounts used in the settlement between MDCH and DWCCMHA.

Schedule B
Explanation of Audit Adjustments
October 1, 1998 through September 30, 1999

EXPENDITURES	Audit Adjustments
A. Gross Total Expenditures	(\$20,939,816)
7,970,103 To correct the understatement of costs reported on the FSR for net cost provider agencies which did not agree with the costs reported to DWCCMHA by those agencies. (finding 5)	
(19,556) To correct the overstatement of costs on the FSR for an amount of administration that was not supported by the general ledger of DWCCMHA. (finding 5)	
(15,100,705) To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)	
(11,716,920) To correct errors in reporting Fee For Service costs with Community Hospitals. (finding 8)	
(400,778) To remove undocumented costs included in administration expenses. (finding 10)	
(507,801) To remove the direct charges for corporate counsel staff assigned to DWCCMHA. (finding 11)	
(948,205) To correct the amount reported for substance abuse to actual expenditures. (finding 9)	
(90,682) To correct the amount reported for PASARR to actual expenditures. (finding 9)	
(35,389) To correct the amount reported for Block Grant for CMH Services to actual expenditures. (finding 9)	
43,885 To correct the amount reported for PATH/Homeless to actual expenditures. (finding 9)	

Schedule B
Explanation of Audit Adjustments
October 1, 1998 through September 30, 1999

EXPENDITURES	Audit Adjustments
(139,394)	To correct the amount reported for Prevention to actual expenditures. (finding 9)
5,626	To correct the amount reported for Aging to actual expenditures. (finding 9)
B. Expenditures Not Otherwise Reported	\$173,963
173,963	To correct the understatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)
C. Substance Abuse Total	(\$979,810)
(31,605)	To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)
(948,205)	To correct the amount reported for substance abuse to actual expenditures. (finding 9)
D. Earned Contracts (Non MDCH) Total	\$130,963
130,963	To correct the understatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)
F. Local Total	\$19,657
19,657	To correct the understatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)

Schedule B
Explanation of Audit Adjustments
October 1, 1998 through September 30, 1999

EXPENDITURES	Audit Adjustments
H. MDCH Earned Contracts Total	
1 PASARR	(\$90,682)
(90,682) To correct the amount reported for PASARR to actual expenditures. (finding 9)	
2 Block Grant for CMH Services	\$1,116,192
1,151,581 To correct the understatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)	
(35,389) To correct the amount reported for Block Grant for CMH Services to actual expenditures. (finding 9)	
4 PATH/Homeless	\$43,885
43,885 To correct the amount reported for PATH/Homeless to actual expenditures. (finding 9)	
5 Prevention	(\$139,394)
(139,394) To correct the amount reported for Prevention to actual expenditures. (finding 9)	
6 Aging	\$5,626
5,626 To correct the amount reported for Aging to actual expenditures. (finding 9)	
8 Other MDCH Earned Contracts	(\$640,652)
(640,652) To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)	

Schedule B
Explanation of Audit Adjustments
October 1, 1998 through September 30, 1999

EXPENDITURES	Audit Adjustments
I. Matchable Services (A-(B through H))	(\$20,579,564)
7,970,103 To correct the understatement of costs reported on the FSR for net cost provider agencies which did not agree with the costs reported to DWCCMHA by those agencies. (finding 5)	
(19,556) To correct the overstatement of costs on the FSR for an amount of administration that was not supported by the general ledger of DWCCMHA. (finding 5)	
(15,904,612) To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)	
(11,716,920) To correct errors in reporting Fee For Service costs with Community Hospitals. (finding 8)	
(400,778) To remove undocumented costs included in administration expenses. (finding 10)	
(507,801) To remove the direct charges for corporate counsel staff assigned to DWCCMHA. (finding 11)	
J. Payments to MDCH for State Services	\$19,076
19,076 To adjust the payments to MDCH for State Services to the amounts used in the settlement between MDCH and DWCCMHA.	
K. Specialty Managed Care Service Total	
1 100% MDCH Matchable Services	(\$17,300,924)
(1,931,494) To correct the overstatement of costs reported on the FSR for net cost provider agencies which did not agree with the costs reported to DWCCMHA by those agencies. (finding 5)	
(9,013) To correct the overstatement of costs on the FSR for an amount of administration that was not supported by the general ledger of DWCCMHA. (finding 5)	

Schedule B
Explanation of Audit Adjustments
October 1, 1998 through September 30, 1999

EXPENDITURES	Audit Adjustments
(9,552,309)	To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)
(5,389,343)	To correct errors in reporting Fee For Service costs with Community Hospitals. (finding 8)
(184,719)	To remove undocumented costs included in administration expenses. (finding 10)
(234,046)	To remove the direct charges for corporate counsel staff assigned to DWCCMHA. (finding 11)
4 90/10 Matchable Services	(\$6,835,728)
(3,168,831)	To correct the overstatement of costs reported on the FSR for net cost provider agencies which did not agree with the costs reported to DWCCMHA by those agencies. (finding 5)
(4,757)	To correct the overstatement of costs on the FSR for an amount of administration that was not supported by the general ledger of DWCCMHA. (finding 5)
(3,441,151)	To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)
(97,479)	To remove undocumented costs included in administration expenses. (finding 10)
(123,510)	To remove the direct charges for corporate counsel staff assigned to DWCCMHA. (finding 11)

Schedule B
Explanation of Audit Adjustments
October 1, 1998 through September 30, 1999

EXPENDITURES	Audit Adjustments
L. GF Categorical and Formula Services Total	
1 100% MDCH Matchable	\$128,618
2,305,786 To correct the understatement of costs reported on the FSR for net cost provider agencies which did not agree with the costs reported to DWCCMHA by those agencies. (finding 5)	
(3,198) To correct the overstatement of costs on the FSR for an amount of administration that was not supported by the general ledger of DWCCMHA. (finding 5)	
(2,006,321) To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)	
(65,536) To remove undocumented costs included in administration expenses. (finding 10)	
(83,037) To remove the direct charges for corporate counsel staff assigned to DWCCMHA. (finding 11)	
(19,076) To adjust the payments to MDCH for State Services to the amounts used in the settlement between MDCH and DWCCMHA.	
4 90/10 Matchable Services	\$3,409,394
10,764,642 To correct the understatement of costs reported on the FSR for net cost provider agencies which did not agree with the costs reported to DWCCMHA by those agencies. (finding 5)	
(2,588) To correct the overstatement of costs on the FSR for an amount of administration that was not supported by the general ledger of DWCCMHA. (finding 5)	

Schedule B
Explanation of Audit Adjustments
October 1, 1998 through September 30, 1999

EXPENDITURES		Audit Adjustments
(904,831)	To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)	
(6,327,577)	To correct errors in reporting Fee For Service costs with Community Hospitals. (finding 8)	
(53,044)	To remove undocumented costs included in administration expenses. (finding 10)	
(67,208)	To remove the direct charges for corporate counsel staff assigned to DWCCMHA. (finding 11)	

Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 1998 through September 30, 1999

		Total	Medicaid	General Fund	Carryforward	Total
		Authorization	Expenditures	Expenditures	or Savings	MDCH Share
I.	Maintenance of Effort (MOE)					
A.	Maintenance of Effort - Expenditures					
1	Ethnic Population	\$1,922,164	\$496,221	\$1,425,943	\$0	\$1,922,164
2	OBRA Active Treatment	2,083,942	1,579,317	504,625	-	2,083,942
3	OBRA Residential	2,599,693	1,564,925	1,034,768	-	2,599,693
4	Residential Direct Care Wage Increase #1 - 100% MOE	7,917,000	5,001,127	2,915,873	-	7,917,000
5	Residential Direct Care Wage Increase #2 - 100% MOE	3,654,794	2,760,246	894,548	-	3,654,794
6	Total	\$18,177,593	\$11,401,836	\$6,775,757	\$0	\$18,177,593
7	Maintenance of Effort - Lapse					\$0
		MOE	Medicaid	General Fund		
B.	Reallocation of MOE Authorization	Authorization	Percentage	Percentage	Medicaid	General Fund
1	Ethnic Population	\$1,922,164	25.82%	74.18%	\$496,221	\$1,425,943
2	OBRA Active Treatment	2,083,942	75.79%	24.21%	1,579,317	504,625
3	OBRA Residential	2,599,693	60.20%	39.80%	1,564,925	1,034,768
4	Residential Direct Care Wage Increase #1 - 100% MOE	7,917,000	63.17%	36.83%	5,001,127	2,915,873
5	Residential Direct Care Wage Increase #2 - 100% MOE	3,654,794	75.52%	24.48%	2,760,246	894,548
6	Total	\$18,177,593			\$11,401,836	\$6,775,757
II.	Specialized Managed Care	MDCH	MDCH			
	(Includes both state and federal share)	Revenue	Expense			
A.	Total - Specialized Managed Care	\$331,116,020	\$308,427,003			
B.	Maintenance of Effort - Summary	11,401,836	11,401,836			
C.	Net Specialized Managed Care (A-B)	\$319,714,184	\$297,025,167			
III.	State/General Fund Formula Funding		MDCH			
A.	GF/Formula - State and Community Managed Programs	Authorization	Expense			
1	State Managed Services	\$52,976,548	\$55,015,765			
2	MDCH Risk Authorization - MDCH Approved for Use	441,733	441,733			
3	Community Managed Services (Including Categorical)	89,865,768	90,757,942			
4	Total State and Community Programs - GF/Formula Funding	\$143,284,049	\$146,215,440			
B.	Maintenance of Effort - Summary	\$6,775,757	\$6,775,757			
C.	Categorical, Special And Designated Funds					
1	Grant Pickup	\$95,000	\$95,000			
2	Respite - Tobacco Tax	222,500	222,500			
3	Multicultural Services	100,000	100,000			
4	MDCH Risk Auth - Not Approved	-	-			
5	Other Funding	59,600	59,600			
6	Total Categorical, Special and Designated Funds	\$477,100	\$477,100			
D.	Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	\$136,031,192	\$138,962,583			

Schedule C
Contract Reconciliation and Cash Settlement Summary
October 1, 1998 through September 30, 1999

		Specialized	Formula		
		Managed Care	Funds		
IV.	Shared Risk Arrangement				
A.	Operating Budget - Exclude MOE and Categorical Funding	\$319,714,184	\$136,031,192		
B.	MDCH Share - Exclude MOE and Categorical Funding	297,025,167	138,962,583		
C.	Surplus (Deficit)	\$22,689,017	(\$2,931,391)		
D.	Redirect Freed Up Medicaid Funds (Note 1)		-		
E.	Shared Risk - Surplus (Deficit)	\$22,689,017	(\$2,931,391)		
F.	Risk Band - 5% of Operating Budget (A x 5%)	\$15,985,709	\$6,801,560		
			Potential		
			Med. Savings	Redirected	Grand
V.	Cash Settlement	MDCH Share	(Note 1)	Savings	Total
A.	MDCH Obligation				Total
1	Specialty Managed Care (Net of MOE)	\$297,025,167	\$15,985,709	\$2,931,391	\$315,942,267
2	GF/Formula Funding (Net of Categorical and MOE)	136,031,192			136,031,192
3	MOE Specialty Managed Care MDCH Obligation	11,401,836			11,401,836
4	MOE GF/Formula Funding MDCH Obligation	6,775,757			6,775,757
5	Categorical - MDCH Obligation	477,100			477,100
6	Total - MDCH Obligation				\$470,628,152
B.	Advances - Prepayments				
1	Specialized Managed Care - Prepayments Through 9/30/1999			\$327,219,660	
2	Specialized Managed Care - FY 99 Prepayments after 9/30/1999			3,896,360	
3	Subtotal - Specialized Managed Care				\$331,116,020
4	GF/Formula Funding - (Include MDCH Risk Authorization)				88,924,776
5	Purchase of Services				52,976,548
6	Categorical Funding				1,365,530
7	Total Prepayments				\$474,382,874
C.	Balance Due MDCH				\$3,754,722
D.	Balance Due to MDCH for Unpaid State Service Costs				
	State Facility Costs				\$55,015,765
	Actual Payments to MDCH				55,015,765
	Balance Due MDCH				-
E.	Net Balance Due MDCH				\$3,754,722
	Prior Settlement (Net of State Facility settlement)				17,195
	Balance Due to MDCH				\$3,771,917

Note 1: Retention of Medicaid savings of \$15,985,709 contingent upon an approval Medicaid savings plan.
The full \$15,985,709 must be returned if a Medicaid Savings Reinvestment Plan is not submitted by DWCCMHA and approved by MDCH.

Schedule D
Financial Status Report
October 1, 1999 through September 30, 2000

REVENUES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Revenues Not Otherwise Reported	\$19,457,667	\$0	\$19,457,667
B. Substance Abuse Total	\$10,056,218	-	\$10,056,218
1 Medicaid Pass Through	10,056,218	-	10,056,218
2 Other	-	-	-
C. Earned Contracts (non MDCH) Total	\$4,673,172	\$0	\$4,673,172
1 CMH to CMH	-	-	-
2 Other	4,673,172	-	4,673,172
D. MI Child - Mental Health	\$82,827	\$0	\$82,827
E. Local Funding Total	\$25,309,757	\$0	\$25,309,757
1 Special Fund Account (226(a))	-	-	-
2 Title XX Replacement	20,570,147	-	20,570,147
3 All Other	4,739,610	-	4,739,610
F. Reserve Balances - Planned for use	-	-	-
1 Carryforward -Section 226(2)(b)(c)	-	-	-
2 Internal Service Fund	-	-	-
3 Other (205(4)(h))	-	-	-
4 Stop/loss Insurance	-	-	-
G. MDCH Earned Contracts Total	\$10,195,663	\$0	\$10,195,663
1 PASARR	2,195,396		2,195,396
2 Block Grant for CMH Services	6,328,735		6,328,735
3 DD Council Grants	-		-
4 PATH/Homeless	241,270		241,270
5 Prevention	60,000		60,000
6 Aging	124,000		124,000
7 HUD Shelter Plus Care	-		-
8 Other MDCH Earned Contracts	1,246,262		1,246,262

Schedule D
Financial Status Report
October 1, 1999 through September 30, 2000

REVENUES		Reported Amount	Audit Adjustments	Adjusted Amount
H.	Gross Medicaid Total	\$344,415,533	(\$7,366,738)	\$337,048,795
1	Medicaid - Specialty Managed Care	341,845,729	(7,366,738)	334,478,991
2	Medicaid - Children's Waiver Total	2,569,804	-	2,569,804
I.	Reimbursements Total	\$25,419,290	-	\$25,419,290
1	1st and 3rd Party	4,111,786	-	4,111,786
2	SSI	21,307,504	-	21,307,504
J.	State General Funds Total	\$159,153,890	\$5,945,710	\$165,099,600
1	Formula Funding	81,930,510	6,351,258	88,281,768
2	Categorical Funding	667,500	-	667,500
3	State Services Base	76,080,167	(103,042)	75,977,125
4	MDCH Risk Authorization	475,713	(302,506)	173,207
5	Residential D.C.W.	-	-	-
K.	Grand Total Revenues	\$598,764,017	(\$1,421,028)	\$597,342,989
L.	Estimated MDCH Obligation (G+H+J)	\$513,765,086	(\$1,421,028)	\$512,344,058

Schedule D
Financial Status Report
October 1, 1999 through September 30, 2000

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
A. Gross Total Expenditures	\$598,764,017	(\$30,812,958)	\$567,951,059
B. Expenditures Not Otherwise Reported	\$19,457,667	\$323,054	\$19,780,721
C. Substance Abuse Total	\$10,056,218	(\$195,842)	\$9,860,376
1 Medicaid Pass Through	10,056,218	(195,842)	9,860,376
2 Other	-	-	-
D. Earned Contracts (Non MDCH) Total	\$4,673,172	(\$368,205)	\$4,304,967
1 CMH to CMH	-	-	-
2 Other Earned Contracts	4,673,172	(368,205)	4,304,967
E. MI Child - Mental Health	\$82,827	-	\$82,827
F. Local Total	\$8,453,352	\$25,950	\$8,479,302
1 Local Cost for State Provided Services	8,453,352	-	8,453,352
2 Other Not Used as Local Match	-	25,950	25,950
G. Expenditures From Reserve Balances	\$0	\$0	\$0
1 Carryforward - Sec 226(2)(b)(c)	-	-	-
2 Internal Service Fund	-	-	-
3 Other (205(4)(h))	-	-	-
4 Stop/Loss Ins.	-	-	-
H. MDCH Earned Contracts Total	\$10,195,663	\$2,636,800	\$12,832,463
1 PASARR	2,195,396	(267,120)	1,928,276
2 Block Grant for CMH Services	6,328,735	2,601,590	8,930,325
3 DD Council Grants	-	-	-
4 PATH/Homeless	241,270	(92,171)	149,099
5 Prevention	60,000	-	60,000
6 Aging	124,000	-	124,000
7 HUD Shelter Plus Care	-	-	-
8 Other MDCH Earned Contracts	1,246,262	394,501	1,640,763

Schedule D
Financial Status Report
October 1, 1999 through September 30, 2000

EXPENDITURES	Reported Amount	Audit Adjustments	Adjusted Amount
I. Matchable Services (A-(B through H))	\$545,845,118	(\$33,234,715)	\$512,610,403
J. Payments to MDCH for State Services	\$76,080,167	\$34,161	\$76,114,328
K. Specialty Managed Care Service Total	\$368,506,825	(\$20,165,957)	\$348,340,868
1 100% MDCH Matchable Services	245,629,234	(15,927,188)	229,702,046
2 All SSI and Other Reimbursements	20,164,141	(1,399,708)	18,764,433
3 Net MDCH Share for 100 % Services (K1-K2)	225,465,093	(14,527,480)	210,937,613
4 90/10 Matchable Services	122,877,591	(4,238,769)	118,638,822
5 Medicaid Federal Share	67,151,813	(2,335,986)	64,815,827
6 Other Reimbursements	1,027,086	-	1,027,086
7 10% Local Match Funds	5,469,869	(190,278)	5,279,591
8 Net State Share for 90/10 Services (K4-K5-K6-K7)	49,228,823	(1,712,505)	47,516,318
9 Total MDCH Share, Spec. Mgd Care (K3+K5+K8)	341,845,729	(18,575,971)	323,269,758
L. GF Categorical and Formula Services Total	\$98,688,322	(\$13,102,920)	\$85,585,402
1 100% MDCH Matchable Services	28,613,585	(1,137,604)	27,475,981
2 All SSI and Other Reimbursements	622,582	(38,775)	583,807
3 Net GF and Formula for 100% Services (L1-L2)	27,991,003	(1,098,829)	26,892,174
4 90/10 Matchable Services	70,074,737	(11,965,316)	58,109,421
5 Reimbursements	3,605,481	3,525	3,609,006
6 10% Local Match Funds	6,646,926	(1,196,884)	5,450,042
7 Net GF and Formula for 90/10 Services (L4-L5-L6)	59,822,330	(10,771,957)	49,050,373
8 Total MDCH GF and Formula (L3+L7)	87,813,333	(11,870,786)	75,942,547
M. Children's Waiver - Total	\$2,569,804	-	\$2,569,804
1 Medicaid - Federal Share	1,416,219	-	1,416,219
2 Other Reimbursements	-	-	-
3 Net State Share (M-M1-M2)	1,153,585	-	1,153,585
4 Total MDCH Share Children's Waiver (M1+M3)	2,569,804	-	2,569,804
N. Unobligated Spending Authority Total	\$0	\$0	-
1 MDCH Risk Authorization	-	-	-
2 All Other	-	-	-
O. Total Local Match Funds (K7+L6)	\$12,116,795	(\$1,387,162)	\$10,729,633
P. Total MDCH Share of Expenditures (J+K9+L8+M4)	\$508,309,033	(\$30,412,596)	\$477,896,437

Schedule E
Explanation of Audit Adjustments
October 1, 1999 through September 30, 2000

REVENUES	Audit Adjustments
1. Medicaid - Specialty Managed Care	(\$7,366,738)
(7,366,738) To adjust revenue to the amounts used in the settlement between MDCH and DWCCMHA.	
1. Formula Funding	\$6,351,258
6,351,258 To adjust revenue to the amounts used in the settlement between MDCH and DWCCMHA.	
3. State Services Base	(\$103,042)
(103,042) To adjust revenue to the amounts used in the settlement between MDCH and DWCCMHA.	
4. MDCH Risk Authorization	(\$302,506)
(302,506) To adjust revenue to the amounts used in the settlement between MDCH and DWCCMHA.	

Schedule E
Explanation of Audit Adjustments
October 1, 1999 through September 30, 2000

EXPENDITURES	Audit Adjustments
A. Gross Total Expenditures	(\$30,812,958)
(9,181,228) To correct the over statement of costs reported on the FSR for net cost provider agencies which did not agree with the costs reported to DWCCMHA by those agencies. (finding 5)	
(291,963) To correct the over statement of costs on the FSR for an amount of administration that was not supported by the general ledger of DWCCMHA. (finding 5)	
(10,778,175) To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)	
(12,370,899) To correct errors in reporting Fee For Service costs with Community Hospitals. (finding 8)	
(31,596) To remove undocumented costs included in administration expenses. (finding 10)	
(604,177) To remove the direct charges for corporate counsel staff assigned to DWCCMHA. (finding 11)	
437,816 To correct the amount reported for substance abuse to actual expenditures. (finding 9)	
(267,120) To correct the amount reported for PASARR to actual expenditures. (finding 9)	
2,366,555 To correct the amount reported for Block Grant to actual expenditures. (finding 9)	
(92,171) To correct the amount reported for PATH/Homeless grant to actual expenditures. (finding 9)	
B. Expenditures Not Otherwise Reported	\$323,054
323,054 To correct the understatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)	

Schedule E
Explanation of Audit Adjustments
October 1, 1999 through September 30, 2000

EXPENDITURES	Audit Adjustments
C. Substance Abuse Total	(\$195,842)
(633,658) To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)	
437,816 To correct the amount reported for substance abuse to actual expenditures. (finding 9)	
D. Earned Contracts (non MDCH) Total	(\$368,205)
(368,205) To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)	
F. Local Total	\$25,950
25,950 To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)	
H. MDCH Earned Contracts Total	
1 PASARR	(\$267,120)
(267,120) To correct the amount reported for PASARR to actual expenditures. (finding 9)	
2 Block Grant for CMH Services	\$2,601,590
235,035 To correct the understatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)	
2,366,555 To correct the amount reported for Block Grant to actual expenditures. (finding 9)	
4 PATH/Homeless	(\$92,171)
(92,171) To correct the amount reported for PATH/Homeless to actual expenditures. (finding 9)	

Schedule E
Explanation of Audit Adjustments
October 1, 1999 through September 30, 2000

EXPENDITURES	Audit Adjustments
I. Matchable Services (A-(B through H))	(\$33,234,715)
(9,181,228) To correct the over statement of costs reported on the FSR for net cost provider agencies which did not agree with the costs reported to DWCCMHA by those agencies. (finding 5)	
(291,963) To correct the over statement of costs on the FSR for an amount of administration that was not supported by the general ledger of DWCCMHA. (finding 5)	
(10,754,852) To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)	
(12,370,899) To correct errors in reporting Fee For Service costs with Community Hospitals. (finding 8)	
(31,596) To remove undocumented costs included in administration expenses. (finding 10)	
(604,177) To remove the direct charges for corporate counsel staff assigned to DWCCMHA. (finding 11)	
J. Payments to MDCH for State Services	\$34,161
34,161 To adjust the payments to MDCH for State Services to the amounts used in the settlement between MDCH and DWCCMHA.	
K. Specialty Managed Care Service Total	
1 100% MDCH Matchable Services	(\$15,927,188)
3,139,682 To correct the understatement of costs reported on the FSR for net cost provider agencies which did not agree with the costs reported to DWCCMHA by those agencies. (finding 5)	
(126,599) To correct the overstatement of costs on the FSR for an amount of administration that was not supported by the general ledger of DWCCMHA. (finding 5)	

Schedule E
Explanation of Audit Adjustments
October 1, 1999 through September 30, 2000

EXPENDITURES	Audit Adjustments
(7,816,201)	To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)
(10,814,231)	To correct errors in reporting Fee For Service costs with Community Hospitals. (finding 8)
(13,700)	To remove undocumented costs included in administration expenses. (finding 10)
(261,978)	To remove the direct charges for corporate counsel staff assigned to DWCCMHA. (finding 11)
(34,161)	To adjust the payments to MDCH for State Services to the amounts used in the settlement between MDCH and DWCCMHA.
K. Specialty Managed Care Service Total	
4 90/10 Matchable Services	(\$4,238,769)
(2,606,949)	To correct the over statement of costs reported on the FSR for net cost provider agencies which did not agree with the costs reported to DWCCMHA by those agencies. (finding 5)
(68,372)	To correct the over statement of costs on the FSR for an amount of administration that was not supported by the general ledger of DWCCMHA. (finding 5)
(1,414,564)	To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)
(7,399)	To remove undocumented costs included in administration expenses. (finding 10)
(141,485)	To remove the direct charges for corporate counsel staff assigned to DWCCMHA. (finding 11)
L. GF Categorical and Formula Services Total	
1 100% MDCH Matchable Services	(\$1,137,604)
(1,403,641)	To correct the over statement of costs reported on the FSR for net cost provider agencies which did not agree with the costs reported to DWCCMHA by those agencies. (finding 5)

Schedule E
Explanation of Audit Adjustments
October 1, 1999 through September 30, 2000

EXPENDITURES	Audit Adjustments
(59,407)	To correct the over statement of costs on the FSR for an amount of administration that was not supported by the general ledger of DWCCMHA. (finding 5)
454,809	To correct the understatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)
(6,429)	To remove undocumented costs included in administration expenses. (finding 10)
(122,936)	To remove the direct charges for corporate counsel staff assigned to DWCCMHA. (finding 11)
L. GF Categorical and Formula Services Total	
4 90/10 Matchable Services	(\$11,965,316)
(8,310,320)	To correct the over statement of costs reported on the FSR for net cost provider agencies which did not agree with the costs reported to DWCCMHA by those agencies. (finding 5)
(37,586)	To correct the over statement of costs on the FSR for an amount of administration that was not supported by the general ledger of DWCCMHA. (finding 5)
(1,978,896)	To correct the overstatement of costs reported on the FSR for net cost provider agencies that were the result of errors in and unallowable costs included in the SERs of subcontract agencies. (finding 6)
(1,556,668)	To correct errors in reporting Fee For Service costs with Community Hospitals. (finding 8)
(4,068)	To remove undocumented costs included in administration expenses. (finding 10)
(77,778)	To remove the direct charges for corporate counsel staff assigned to DWCCMHA. (finding 11)

Schedule F
Contract Reconciliation and Cash Settlement Summary
October 1, 1999 through September 30, 2000

		Total Authorization	Medicaid Expenditures	General Fund Expenditures	Carryforward or Savings	Total MDCH Share
I.	Maintenance of Effort (MOE)					
A.	Maintenance of Effort - Expenditures					
1	Ethnic Population	\$1,922,164	\$496,221	\$1,425,943		\$1,922,164
2	OBRA Active Treatment	2,083,942	1,579,317	504,625	-	2,083,942
3	OBRA Residential	2,599,693	1,564,925	1,034,768	-	2,599,693
4	Residential Direct Care Wage Increase #1 - 100% MOE	7,917,000	5,001,127	2,915,873	-	7,917,000
5	Residential Direct Care Wage Increase #2 - 100% MOE	7,309,588	5,520,492	1,789,096	-	7,309,588
6	Total	\$21,832,387	\$14,162,082	\$7,670,305	\$0	\$21,832,387
7	Maintenance of Effort - Lapse					\$0
B.	Reallocation of MOE Authorization	MOE Authorization	Medicaid Percentage	General Fund Percentage	Medicaid	General Fund
		\$1,922,164	25.82%	74.18%	\$496,221	\$1,425,943
1	OBRA Active Treatment	2,083,942	75.79%	24.21%	1,579,317	504,625
2	OBRA Residential	2,599,693	60.20%	39.80%	1,564,925	1,034,768
3	Residential Direct Care Wage Increase #1 - 100% MOE	7,917,000	63.17%	36.83%	5,001,127	2,915,873
4	Residential Direct Care Wage Increase #2 - 100% MOE	7,309,588	75.52%	24.48%	5,520,492	1,789,096
5	Total	\$21,832,387			\$14,162,082	\$7,670,305
II.	Specialized Managed Care (Includes both state and federal share)	MDCH Revenue	MDCH Expense			
A.	Total - Specialized Managed Care	\$334,478,991	\$323,269,758			
B.	Maintenance of Effort - Summary	14,162,082	14,162,082			
C.	Net Specialized Managed Care (A-B)	\$320,316,909	\$309,107,676			
III.	State/General Fund Formula Funding					
A.	GF/Formula - State and Community Managed Programs	Authorization	MDCH Expense			
1	State Managed Services	\$75,977,125	\$76,114,328			
2	MDCH Risk Authorization - MDCH Approved for Use	173,207	173,207			
3	Community Managed Services (Including Categorical)	88,646,762	75,769,340			
4	Total State and Community Programs - GF/Formula Funding	\$164,797,094	\$152,056,875			
B.	Maintenance of Effort - Summary	\$7,670,305	\$7,670,305			
C.	Categorical, Special And Designated Funds					
1	Grant Pickup	\$95,000	\$95,000			
2	Respite -Tobacco Tax	222,500	222,500			
3	Multicultural Services	300,000	300,000			
4	MDCH Risk Auth - Not Approved	-	-			
5	Other Funding - Mich Neagh Partnshp	50,000	50,000			
6	Total Categorical, Special and Designated Funds	\$667,500	\$667,500			
D.	Subtotal - GF/Formula Community and State Managed Programs (A-B-C)	\$156,459,289	\$143,719,070			

Schedule F
Contract Reconciliation and Cash Settlement Summary
October 1, 1999 through September 30, 2000

		Specialized Managed Care	Formula Funds			
IV.	Shared Risk Arrangement					
A.	Operating Budget - Exclude MOE and Categorical Funding	\$320,316,909	\$156,459,289			
B.	MDCH Share - Exclude MOE and Categorical Funding	309,107,676	143,719,070			
C.	Surplus (Deficit)	\$11,209,233	\$12,740,219			
D.	Redirect Freed Up Medicaid Funds	-	-			
E.	Shared Risk - Surplus (Deficit)	\$11,209,233	\$12,740,219			
F.	Risk Band - 5% of Operating Budget (A x 5%)	\$16,015,845	\$7,822,964			
V.	Cash Settlement	MDCH Share	Potential Med. Svgs. (Note 1) and GF CF	Redirected Savings	Total	Grand Total
A.	MDCH Obligation					
1	Specialty Managed Care (Net of MOE)	\$309,107,676	\$11,209,233		\$320,316,909	
2	GF/Formula Funding (Net of Categorical and MOE)	143,719,070	7,822,964		151,542,034	
3	MOE Specialty Managed Care MDCH Obligation	14,162,082	-		14,162,082	
4	MOE GF/Formula Funding MDCH Obligation	7,670,305	-		7,670,305	
5	Categorical - MDCH Obligation	667,500	-		667,500	
6	Total - MDCH Obligation					\$494,358,830
B.	Advances - Prepayments					
1	Specialized Managed Care - Prepayments Through 9/30/2000			\$334,478,991		
2	Specialized Managed Care - FY 00 Prepayments after 9/30/2000			-		
3	Subtotal - Specialized Managed Care				\$334,478,991	
4	GF/Formula Funding - (Include MDCH Risk Authorization)				88,454,975	
5	Purchase of Services				75,977,125	
6	Categorical Funding				667,500	
7	Total Prepayments					\$499,578,591
C.	Balance Due MDCH					\$5,219,761
D.	Balance Due to MDCH for Unpaid State Service Costs					
	State Facility Costs				\$76,114,328	
	Actual Payments to MDCH				76,114,328	
	Balance Due MDCH					-
E.	Net Balance Due MDCH					\$5,219,761
	Prior Settlement (Net of State Facility settlement)					(302,506)
	Balance Due to MDCH					\$4,917,255

Note 1: Retention of Medicaid savings of \$11,209,233 contingent upon an approved Medicaid savings plan.
The full \$11,209,233 must be returned if a Medicaid Savings Reinvestment Plan is not submitted by DWCCMHA and approved by MDCH.

GLOSSARY OF ACRONYMS AND TERMS

GF	General Funds
MDCH.....	Michigan Department of Community Health
MSSSC.....	Managed Specialty Supports and Services Contract
OBRA	Omnibus Budget Reconciliation Act
PASARR.....	Pre-Admission Screening and Annual Resident Reviews
PEPM	Per Eligible Per Month
DWCCMHA	Detroit-Wayne County Community Mental Health Agency

CORRECTIVE ACTION PLANS

Finding Number: 1

Page Reference: 5

Finding: Risk Management Strategy Unsupported and Not Fully Implemented

DWCCMHA's risk management strategy included a procedure that was not implemented and projections that were not supported, and indicated that DWCCMHA had set up a risk reserve in the amount of \$10 million that it could not support in violation of the MSSSC. Although submitted for approval, the risk management strategy was never approved by MDCH.

Recommendations: Amend current risk management strategy to reflect accurate risk projections and the actual dedicated reserved funds for local obligation, and submit the risk management strategy to MDCH for approval. Also, retain documentation to support risk management strategy representations and support its implementation.

DWCCMHA

Comments: In their September 29, 2006 reply to the Preliminary Analysis, DWCCMHA stated that they will establish a risk reserve strategy in accordance with Government Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues* (GASB 10). The risk reserve strategy will either be based on actuarially sound estimates or on historical analysis as allowed by GASB 10. DWCCMHA stated that they will retain supporting documentation for their risk strategy and provide that information to MDCH upon request. A comprehensive and Agency Board approved risk management strategy will be completed by December 31, 2006 and forwarded to the Department upon completion. DWCCMHA stated that they will also compile evidence supporting the current level of reserves available at the Agency, and financial statements will be provided upon the completion of the audit as required by law or as requested.

CORRECTIVE ACTION PLANS

Corrective Action: DWCCMHA will establish a risk reserve strategy in accordance with GASB 10 based on actuarially sound estimates or on historical analysis, retain supporting documentation for its risk strategy, and provide that information to MDCH upon request. DWCCMHA will submit the board-approved risk management strategy to MDCH. DWCCMHA will retain evidence supporting the level of reserves available.

**Anticipated
Completion Date:** December 31, 2006

MDCH Response: None.

CORRECTIVE ACTION PLANS

Finding Number: 2

Page Reference: 7

Finding: Subcontracts Not Executed or Lacked Clearly Defined Terms

DWCCMHA did not have controls in place to ensure that contracts with subcontractors were properly executed and contained clearly defined payment terms in violation of the MSSSC and the Code of Federal Regulations. For the six months ended 9/30/2000, DWCCMHA paid one provider over \$14 million without the benefit of a signed contract.

Recommendation: Adopt policies and procedures to ensure that all subcontracts have clearly defined terms, and are signed prior to the beginning date of the contract.

DWCCMHA

Comments:

In their September 29, 2006 reply to the Preliminary Analysis, DWCCMHA stated that while in some instances they may have paid providers for services without the benefit of a contract, the funds provided were spent for covered, medically necessary services under the terms and conditions of the contract with MDCH. For the contracts that lacked adequate terms or scopes of services, DWCCMHA will revise those contracts, and all future contracts to include clearly defined terms to avoid potential contract disputes. In DWCCMHA's July 26, 2006 response to the Preliminary Analysis, DWCCMHA stated that they have a procurement process that ties each contract amount to a dollar limited purchase order. Contracts must be amended in writing and approved by both the Agency Board of Directors and the County Board of Commissioners before a purchase order is modified. A contractor or vendor cannot be paid above the current contract amount until the aforementioned steps are completed.

CORRECTIVE ACTION PLANS

Corrective Action: DWCCMHA will revise previous contracts and all future contracts to include clearly defined terms to avoid potential contract disputes. DWCCMHA has controls in place to prevent payments to contractors or vendors that exceed approved contract amounts.

**Anticipated
Completion Date:** January 31, 2007

MDCH Response: None.

CORRECTIVE ACTION PLANS

Finding Number: 3

Page Reference: 9

Finding: Subcontractor Audits Not Timely and Not Sufficient

DWCCMHA did not adequately monitor their net cost provider contractors because they did not require timely audits and did not require those audits to adequately address MSSSC requirements.

Recommendations: Implement policies and procedures to ensure that DWCCMHA contracts for audits and completes settlements of net cost contractors timely so the FSRs are properly adjusted to reflect settlement amounts or accruals for anticipated settlements for which the contract period covers. Also, establish policies and procedures to ensure that audits of net cost contractors confirm compliance with the applicable federal and state laws and regulations as well as the terms of the MSSSC.

DWCCMHA

Comments: In their September 29, 2006 reply to the Preliminary Analysis, DWCCMHA stated that the completion and submission of timely audits from the service providers was once an issue but was corrected by the agency beginning in fiscal year 2003-2004. DWCCMHA no longer contracts with a voluminous number of service providers; DWCCMHA contracts directly with 5 Managed Comprehensive Provider Networks (MCPNs) and financial audits are received on a timely basis from these entities. Contracts with the MCPNs will be modified to include an evaluation of compliance with the MDCH contract as part of the financial audit. DWCCMHA stated that previously submitted FSRs will be adjusted to reflect settlement amounts as a result of audits or updated cost settlements.

CORRECTIVE ACTION PLANS

Corrective Action: DWCCMHA receives financial audits on a timely basis from the 5 Managed Comprehensive Provider Networks (MCPNs) they now directly contract with. Contracts with the MCPNs will be modified to include an evaluation of compliance with the MDCH contract as part of the financial audit. DWCCMHA will adjust previously submitted FSRs to reflect settlement amounts as a result of audits or updated cost settlements.

**Anticipated
Completion Date:** September 30, 2007

MDCH Response: DWCCMHA must ensure they receive the audits from the MCPNs in time to complete settlements so the FSRs submitted to MDCH are properly adjusted to reflect settlement amounts or accruals for anticipated settlements. DWCCMHA's Cost Settlement Policy dated January 20, 2006 states that DWCCMHA will complete the final audit within 120 days after the end of the County fiscal year. However, this is also the due date for the FSR to the state. Therefore, it does not appear the FSR will be properly adjusted to reflect settlement amounts or accruals for anticipated settlements for which the contract period covers.

CORRECTIVE ACTION PLANS

Finding Number: 4

Page Reference: 11

Finding: Inadequate Controls Over Receivable and Payable Accounts

DWCCMHA did not have adequate controls in place to ensure that it effectively and efficiently managed its account receivables and payables in violation of the MSSSC and safe and sound business practices.

Recommendation: Establish policies and procedures over account receivables and payables to ensure that settlements are collected and paid timely, and that subcontracted provider agencies are reimbursed appropriately.

**DWCCMHA
Comments:**

In their September 29, 2006 reply to the Preliminary Analysis, DWCCMHA acknowledged that cost settlements with providers have historically not been completed in a timely manner. In an effort to ensure a more timely cost settlement process, Wayne County has developed a new cost settlement policy that requires all cost settlements to be completed within 120 days after the close of the fiscal year. DWCCMHA stated that they have already begun to finalize all outstanding provider cost settlements which will facilitate the payment of outstanding accounts payables and the collection of outstanding accounts receivables. Settlement of all non-current payables and receivables will be completed by January 31, 2007.

Corrective Action: Wayne County developed a new cost settlement policy that requires all cost settlements to be completed within 120 days after the close of the fiscal year. DWCCMHA has begun to finalize all outstanding provider cost settlements.

**Anticipated
Completion Date:** January 31, 2007

MDCH Response: None.

CORRECTIVE ACTION PLANS

Finding Number: 5

Page Reference: 13

Finding: Reported Costs Not Supported by General Ledger or Contractor Cost Reports

DWCCMHA reported expenditures on its final FSRs submitted to MDCH based on a combination of contractor reported, advanced, and budgeted amounts rather than actual expenditures incurred and recorded in DWCCMHA's general ledger in accordance with generally accepted accounting principles, which is a violation of the Mental Health Code, the MSSSC, and Office of Management and Budget (OMB) Circular A-87. Additionally, DWCCMHA misclassified expenditures between Medicaid costs and general fund costs, which is a violation of the MSSSC and OMB Circular A-87.

Recommendation: Implement necessary policies and procedures to ensure that costs reported on the FSRs are supported by the general ledger accounting system used by DWCCMHA, properly allocated between Medicaid costs and general fund costs, and those costs accurately represent costs of the net cost providers.

**DWCCMHA
Comments:**

In their September 29, 2006 reply to the Preliminary Analysis, DWCCMHA stated that the FSRs currently submitted to the State are prepared directly from information contained in DWCCMHA's general ledger. This information is further allocated between Medicaid and General Fund expenses by encounter data contained in DWCCMHA's internal data warehouse. Each program expenditure is separated based on the type of service rendered and the eligibility of consumer served, which allows DWCCMHA to accurately apply the correct funding source to each expenditure. Any FSRs previously submitted that did not tie to the general ledger will be resubmitted by December 31, 2007.

CORRECTIVE ACTION PLANS

Corrective Action: DWCCMHA will prepare FSRs directly from information contained in the general ledger, and allocate Medicaid and General Fund expenses by encounter data contained in DWCCMHA's internal data warehouse. Any FSRs previously submitted that did not tie to the general ledger will be resubmitted by December 31, 2007.

**Anticipated
Completion Date:** December 31, 2007

MDCH Response: None.

CORRECTIVE ACTION PLANS

Finding Number: 6

Page Reference: 15

Finding: Inappropriately Claimed Costs Paid to Subcontractors

DWCCMHA paid inappropriately claimed subcontractor costs of \$15,100,705 for FYE 1999 and \$10,778,175 for FYE 2000, and recorded them on their FSRs filed with MDCH in violation of the MSSSC.

Recommendations: Adopt policies, procedures and contract terms to ensure payment and accurate reporting of net cost contractor expenses that are supported by subcontractor accounting records.

Adopt policies, procedures and contract terms to identify and disallow unallowable costs (including costs that exceed budget limits and costs that do not comply with contractual and regulatory requirements, including the Mental Health Code, and OMB Circular A-87) billed to DWCCMHA by net cost subcontractors.

**DWCCMHA
Comments:**

In their September 29, 2006 reply to the Preliminary Analysis, DWCCMHA stated that they and their subcontractors determine the eligibility of each consumer served prior to rendering any services. The consumer's eligibility is entered into DWCCMHA's encounter data system, and any information submitted by the providers that are not consistent with the consumer eligibility information or allowable array of services is rejected by the Agency's data system. DWCCMHA has instituted on-site fiscal monitoring of each direct contract entity, which is conducted annually and includes testing of various expenditures to ensure that they are allowable under the terms and conditions of the contract with the State. Additionally, annual financial audits of the 5 Managed Comprehensive Provider Networks (MCPNs) will include an evaluation of compliance with the MDCH contract.

CORRECTIVE ACTION PLANS

Corrective Action: DWCCMHA will perform annual, on-site fiscal monitoring of each direct contract entity, which will include testing of various expenditures to ensure that they are allowable under the terms and conditions of the contract with the State. Additionally, annual financial audits of the 5 Managed Comprehensive Provider Networks (MCPNs) will include an evaluation of compliance with the MDCH contract.

Anticipated

Completion Date: January 31, 2007 (on-site fiscal monitoring)
September 30, 2007 (compliance evaluation during annual financial audit)

MDCH Response: None.

CORRECTIVE ACTION PLANS

Finding Number: 7

Page Reference: 24

Finding: Subcontractor Settlement Amounts Not Reflected in FSRs

DWCCMHA did not adjust FSRs filed with MDCH to reflect settlement amounts with subcontractor provider agencies or accruals for anticipated settlements in violation of the MSSSC.

Recommendation: Implement policies and procedures to ensure that expenditures reported on the FSRs are properly adjusted to reflect settlement amounts with subcontractor provider agencies or accruals for anticipated settlements. Implement policies and procedures to ensure that any revisions to settlement amounts and resulting revisions to expenditure amounts be properly reported to MDCH.

DWCCMHA

Comments: In their September 29, 2006 reply to the Preliminary Analysis, DWCCMHA stated that Wayne County has developed a new cost settlement policy that requires all cost settlements to be completed within 120 days after the close of the fiscal year. DWCCMHA stated that previously submitted FSRs will be adjusted to reflect settlement amounts as a result of audits or updated cost settlements.

Corrective Action: Wayne County's Cost Settlement Policy requires all cost settlements to be completed within 120 days after the close of the fiscal year. DWCCMHA will adjust previously submitted FSRs to reflect settlement amounts as a result of audits or updated cost settlements.

**Anticipated
Completion Date:** September 30, 2007

CORRECTIVE ACTION PLANS

MDCH Response: DWCCMHA must ensure they receive the audits from the MCPNs in time to complete settlements so the FSRs submitted to MDCH are properly adjusted to reflect settlement amounts or accruals for anticipated settlements. DWCCMHA's Cost Settlement Policy dated January 20, 2006 states that DWCCMHA will complete the final audit within 120 days after the end of the County fiscal year. However, this is also the due date for the FSR to the state. Therefore, it does not appear the FSR will be properly adjusted to reflect settlement amounts or accruals for anticipated settlements for which the contract period covers.

CORRECTIVE ACTION PLANS

Finding Number: 8

Page Reference: 26

Finding: Community Hospital Expenditures Inappropriately Reported at Advanced Amounts

DWCCMHA inappropriately reported advances to the community hospitals as expenses on the FSRs for FYE 9/30/1999 and FYE 9/30/2000 that exceeded actual approved billings by \$11,716,920 and \$12,370,899, respectively, in violation of the Mental Health Code, OMB Circular A-87, and the MSSSC.

Recommendations: Discontinue reporting advances to contractors for fee for service agreements on the FSR as expenditures, and report actual billed, authorized and paid costs in compliance with the Mental Health Code, OMB Circular A – 87, and the MSSSC.

Amend any subsequently filed FSR to correct this error.

Comments: In their September 29, 2006 reply to the Preliminary Analysis, DWCCMHA stated that they have discontinued the use of advances to pay providers, and all expenses reported on current FSRs represent approved billings rather than advance amounts.

Corrective Action: DWCCMHA no longer advances funds to providers and all expenses reported on FSRs represent approved billings.

Anticipated Completion Date: Completed.

MDCH Response: DWCCMHA must amend any subsequently filed FSRs (from fiscal year end 9/30/2001 forward until the practice of reporting advances was discontinued) to reflect approved billings rather than advance amounts.

CORRECTIVE ACTION PLANS

In their September 29, 2006 reply to the Preliminary Analysis, DWCCMHA stated that they submitted documentation to the audit staff of the MDCH supporting the advance amounts reported in DWCCMHA's FSRs for FY 1999 and FY 2000. The documentation provided consisted of a computer file listing hospital names, dates of service, number of days of service, and amounts DWCCMHA claims to have paid the hospitals. DWCCMHA did not supply documentation that evidences additional approved billings above what was supplied during the audit fieldwork. Consequently, information provided to date is not sufficient to allow a revision to the audit adjustments.

CORRECTIVE ACTION PLANS

Finding Number: 9

Page Reference: 28

Finding: Grants Inappropriately Reported at Budgeted Amounts

DWCCMHA billed MDCH for budgeted amounts and reported budgeted grant and other agreement expenses on the FSRs rather than actual expenditures for FYE 9/30/1999 and FYE 9/30/2000 in violation of agreements and the MSSSC.

Recommendations: Implement policies and procedures to ensure compliance with Grant, Substance Abuse Agreement, and MSSSC reporting requirements. Also, submit amended billings to the MDCH grant offices to correct grant and substance abuse reports to reflect the actual allowable expenditures.

Comments: In their September 29, 2006 reply to the Preliminary Analysis, DWCCMHA stated that they agree with this finding and the corresponding increase in allowable expenditures to the previously submitted grant reports. As of fiscal year 2005-2006, DWCCMHA no longer reports budget amounts as actual expenditures on the grant reports submitted to the MDCH. DWCCMHA agrees to amend FYE 2001 through FYE 2005 MDCH grant reports to properly reflect actual expenditures rather than budgeted amounts.

Corrective Action: DWCCMHA will no longer report budget amounts as actual expenditures on the grant reports submitted to the MDCH. DWCCMHA will amend FYE 2001 through FYE 2005 MDCH grant reports to properly reflect actual expenditures rather than budgeted amounts.

**Anticipated
Completion Date:** December 31, 2006

MDCH Response: None.

CORRECTIVE ACTION PLANS

Finding Number: 10

Page Reference: 31

Finding: Inappropriate Reporting of Undocumented Administration Expenses

DWCCMHA included in the administrative costs on the FSRs for FYE 9/30/99 and FYE 9/30/00 costs of equipment, furnishings and miscellaneous contractual services which did not have supporting documentation in violation of the MSSSC, the Mental Health Code and OMB Circular A-87.

Recommendation: Adopt policies and procedures to ensure accurate reporting of actual and allowable expenses under the Mental Health Code, OMB Circular A-87, and the MSSSC.

Comments: In their September 29, 2006 reply to the Preliminary Analysis, DWCCMHA stated that they will ensure that all supporting documentation is retained and more timely training of staff regarding proper documentation is provided.

Corrective Action: DWCCMHA will ensure that all supporting documentation is retained, and provide timely training of staff regarding proper documentation.

**Anticipated
Completion Date:** September 30, 2007

MDCH Response: None.

CORRECTIVE ACTION PLANS

Finding Number: 11

Page Reference: 32

Finding: Central Service Cost Allocation Plan Deficiencies

DWCCMHA's Central Service Cost Allocations Plans for FYE 9/30/1999 and 9/30/2000 were based on reported costs from 1995 and 1996 rather than the most recently completed year in violation of OMB Circular A-87. Additionally, DWCCMHA lacked documentation to support direct charges for corporate counsel costs and to evidence the proper removal of direct charges from the indirect cost pool.

Recommendations: Base the cost allocation plan used by Wayne County to charge DWCCMHA for use of County costs on the most recent closed fiscal year's costs.

Annually review the indirect cost plan and direct charges from Wayne County to identify any potential direct charges that were not properly removed from the indirect cost pool, and adjust the county charges paid to Wayne County for them.

Retain sufficient supporting documentation to evidence the proper removal of direct charges from the indirect cost pool.

Ensure the periodic certifications as required by OMB Circular A-87 are completed and retained for the direct charges to DWCCMHA for Wayne County corporate counsel staff that reportedly work solely on legal issues for DWCCMHA.

Comments: In their September 29, 2006 reply to the Preliminary Analysis, DWCCMHA stated that the most current cost allocation, although last updated in 2003, is sufficient to use as a basis for allocating indirect charges. The indirect chargeback costs are formula driven and based on calculations and allocation schedules developed by Wayne County

CORRECTIVE ACTION PLANS

accounting staff. The amount of indirect costs charged to Wayne County departments does not exceed the actual cost of the County central service administration. Secondly, there is a legitimate reason for direct charges in addition to the indirect charges. The direct charge is for legal staff that actually works at DWCCMHA. The indirect legal charge is for attorneys that service the entire County on legal matters. Those costs are imbedded in the indirect allocation.

Corrective Action: DWCCMHA agreed to:

- ensure that the cost allocation plan used by Wayne County is based on the most recent closed fiscal year's costs;
- ensure that direct Corporate Counsel staff time is documented in accordance with OMB Circular A-87; and
- annually review the indirect cost plan and direct charges from Wayne County to identify any potential double charges, or direct charges that are not properly adjusted out of the indirect cost pool.

Anticipated

Completion Date: In process.

MDCH Response: DWCCMHA must retain sufficient supporting documentation to evidence the proper removal of direct charges from the indirect cost pool.

In their September 29, 2006 reply to the Preliminary Analysis, DWCCMHA stated that the County has been in discussion with MDCH staff allowing them an opportunity to document the cost allocation process. However, documentation has not been provided to evidence that proper adjustments were made to remove direct charges from the indirect cost pool. Additionally, MDCH requested certifications for the corporate counsel staff direct charges as required by OMB Circular A-87, but these were not provided. Consequently, information provided to date is not sufficient to allow a revision to the audit adjustments.